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**ECONOMIC AFFAIRS**

**No. 379**



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## NATIONAL POLICY AND ISSUES

### JINGJI GUANLI DISCUSSES ROLE OF CENTRAL CITIES

HK230832 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 7, 5 Jul 83  
pp 4-8

[**"Contributing"** commentator: "Enhancement of the Role of Central Cities as Seen From the Practical Experience of Several Chongqing Combines"--passages within slantlines published in boldface]

[Text] In his "Report on the Sixth Five-Year Plan," Premier Zhao Ziyang said that in the next 3 years, the reform of the system would focus on three things, one of which was "to bring into play the role of central cities, and solve the contradiction between different levels and regions." Early this year, the CPC Central Committee and the State Council made the decision to conduct experimental overall reforms in Chongqing City. This was the first big city to be used as an experimental unit; the main task of the project was to build Chongqing city into the economic center of the upper reaches of the Changjiang River and the southwest region, and to turn it into an open central city.

Bringing into play the role of central cities means "using economically more developed cities as centers to spur on the surrounding countryside, and carry out unified organization of production and circulation, thereby gradually forming economic regions of different scales and types, supported by the central cities." This represents an important step in the reform of our country's economic management system. But what, after all, is an economic center? Why do we need economic centers? How can we bring into play the role of central cities? There are many concrete problems involved in these and other questions which require further practical and theoretical research and solution.

Economic activity has objective laws of development. As administration, whether macroeconomic administration in the national economy or microeconomic administration in enterprises, it involves subjective actions by people. If administrative actions are to effectively promote economic development, the administrative system must conform to the objective laws of economic development, otherwise things will go contrary to our wishes, and hinder the development of the economy.

An important characteristic of human economic activity, right from the natural self-sufficient economy through to the commodity economy with the social division of labor as its basis, is the increasing complexity and intimacy of lateral relations. The specialization, coordination, and combination of production require:

intimate lateral contact; and there must be direct contact between production and consumption. If we express this contact in straight lines, the modern economy may be expressed as a horizontal network of countless interwoven lines. Obviously, this network cannot possibly be disorderly and unsystematic; economic development necessarily requires some central points to act as axes in this network, so that an economic network is formed "with big and small centers spread all over the place, linked radially on one plane."

If we look at the appearance of cities in history, some have been formed due to political conditions, while others have developed from the castles of feudal lords. But under conditions of a commodity economy, if cities are to be able to survive and constantly develop, they will have to play a greater or lesser role as central axes of the modern economic network; otherwise they will shrink and vanish.

Commodity production and exchange still exist within socialism. In socialist countries whose economies are not yet developed, it is necessary to greatly develop the production and exchange of commodities under unified planning and leadership. Moreover, the more developed this production and exchange becomes, the more necessary it is to have close and sensitive lateral relations. In the past, we labored under a misconception of the socialist planned economy; we thought that if we were to exercise unified leadership over the economy, it was necessary to manage it under an administrative system from top to bottom. We, therefore, took into consideration only the establishment of a system for transmitting administrative orders from above to below, and paid no heed to the inherent lateral relations in economic life; moreover, within vertical administrative management, there were contradictions between the center and the localities, between higher and lower levels, and between different departments or regions, which was an important reason for our country's low work efficiency and poor economic results in production and circulation. The enhancement of the role of central cities is by no means a subjective vision with no basis in reality, but an objective requirement for the development of the socialist economy.

Since the strengthening of lateral economic relations is an objective requirement of socialist commodity production and exchange, there are bound to be some economic units which, in economic practice, spontaneously demand to break free from the bonds of the administrative system and develop lateral relations. Since the 3d Plenary Session of the 11th CPC Central Committee, though we are still in the partial, experimental stage of the system reform, because we have adopted a series of correct measures like the expansion of enterprise autonomy, the development of the market's regulative role, and economic readjustment, we have brought about the speedy development of socialist commodity production and exchange. Therefore, though the policy of bringing into play the role of central cities has not yet been formally introduced, some progressive industrial, agricultural, and commercial enterprises have already developed lateral economic relations in accordance with objective economic laws, and have achieved remarkable results, providing practical experience beneficial to bringing into play the role of central cities. Several enterprises in Chongqing City are model examples in this respect, having overcome enormous difficulties, and won successful experience in their development of economic combines.

Breaking down provincial and city barriers, the Chongqing clock and watch industry company has established a clock and watch production combine with Chengdu, Guiyang, and Kunming, and has developed the clock and watch industry in the southwest. The Qunlin shopping center in Chongqing City is a small district shopping center, where they have organized a Qunlin clothing company, and developed relations between commerce and industry, between commerce and agriculture, and between different commercial enterprises; their economic relations have spread from the city to the surrounding counties, and outside the province. Over 20 state-run agricultural, animal husbandry, and fishery farms have set up the Changjiang agriculture, industry, and commerce integrated company, whose internal relations have developed into all sorts of economic combinations crossing districts and city boundaries. Chongqing City has a relatively great concentration of war industry enterprises; using the advantages of the war industry, the Jialing machinery factory and the Wangjiang machinery factory have set out on a new path of developing the economy through linking the army with the people / (Editor's note: This magazine will publish an article on these two factories in its next edition) /. The road to economic combination for these enterprises has not been a smooth one; they have all encountered hindrances created by the existing system; but they have survived and developed. Why? Apart from their courage and determination to uphold the correct orientation of reform, the main reason lies in the fact that the road they have taken conforms with the requirements of objective economic law. Precisely because of this, their experience has great guiding significance to the exploration of the question of bringing into play the role of central cities. At the very least, we may gain the following enlightenment from their experiences:

/First, economic centers are formed on the basis of inherent economic relations, not organized using administrative powers./

Historically, cities have always formed naturally into regional economic centers on the basis of economic relations. In the past, by relying on the administrative system to manage the economy, we weakened and even cut off certain lateral relations, such that some central cities began to lose their function as economic centers. Chongqing was a prime example of this; historically, it had been the economic center of the upper reaches of the Changjiang River and the southwest region, but after its status was reduced to that of a municipality under the jurisdiction of the provincial government, it gradually lost this central role. Now that we are reviving its central function, should we do so through expanding the scope of its jurisdiction, or through developing its economic relations? Some comrades, familiar with the past practice of managing the economy through the administrative system, may subconsciously equate the concept of economic regions with that of big administrative or military districts, and consider that forming economic regions supported by central cities means putting all the economic organizations within these regions under the jurisdiction of those cities. If we work according to this concept, we will just expand the administrative system of the province or city into a big administrative district, and there will still be no way of breaking down the basic conditions which cut off lateral economic relations.

The experience of these enterprises tells us that the establishment of an economic combine relies mainly on inherent economic relations, not on administrative relations. The Chongqing clock and watch industry company did not form intercity and interprovincial combines as a result of Chongqing having judicial authority over Kunming, Guiyang and Chengdu, and ordering such combines. The clock and watch factories in these cities each had their strong and weak points, and only by combining to supplement each other's weak points with their own respective advantages could all of them achieve greater development. Because of these objective needs, they were able to combine even though separated by great distances. And because of its technological and economic advantages, the Chongqing clock and watch industry company was able, on the basis of equality and mutual benefit, to give all sorts of support to the enterprises participating in the combine, and therefore, naturally became the center for the clock and watch industry in the southwest. The jurisdictional authority of the small Gunlin shopping center was, of course, very limited. How did it manage to become the center for interprovincial and intercity production and trade in the clothing industry? By the same token, the combine was based on objective needs, and its central status was based on its technological and economic advantages. From this we can see that the formation of so-called economic centers is based not on administrative force, but on internal economic relations. A city becomes a central city because it contains a large number of enterprises, has a central status in the fields of industry, commerce and agriculture, and gives play to its central role. The central role of a city is formed from this large number of central enterprises.

When we say that a central city should be radial, we mean that it has many economic relations or combinations with the outside world. Each combine is a radiating line. This combine can be between industries, between industry and commerce, between commercial enterprises, between industry and agriculture, between agricultural concerns, or between agriculture and commerce. Each combine must have a principle part; or in other words, a dragon must have a head. When many dragon heads are concentrated in one place, that place becomes an economic center. Economic regions with central cities as their backbones cannot have clearly defined borders; their radial lines may be long or short, and their total area will be defined by the area covered by these radial lines.

/Second, economic combines must be established on the basis of free will, equality, and mutual benefit; their establishment cannot be coerced through administrative interference./

Almost all of the economic combine agreements drawn up by these Chongqing enterprises contained the principle of "free will, equality, mutual benefit, and consultation." This should be considered an important principle in the establishment of economic combines.

Should the reorganization and combination of enterprises over the past few years have been done on the basis of "free love," or "arranged marriage?" There has all along been controversy over this point. In the provincial regulations for the promotion of economic combines published by the State Council in 1980, it

was clearly stated that: "The organization of economic combines must start with pressing needs arising from the development of production, and must uphold the principle of free will; it cannot be forced by administrative orders." It later became apparent that if "free will" alone was relied upon, economic combinations failed to appear, so it was impossible not to have the necessary administrative intervention, and various regions failed to thoroughly implement the above regulations of the State Council. We consider that if economic combines are established on the basis of inherent economic relations, the upholding of the principle of "free will, mutual benefit, equality and consultation" is absolutely necessary. This is especially the case with "mutual benefit." First, the reason why economic combines are necessary is that after they are established, the economic results of production or circulation will be improved. The key to whether a combine is necessary or not lies in whether it is able to improve economic results. Once economic results have been achieved, all the participants of the combine ought to be able to benefit from them; they cannot "all eat out of the same big pot"; nor can they "make up for a crop failure with a bumper harvest" or "rob the rich to help the poor." Such practice violates objective economic laws and takes the vitality out of economic combines. The reason why these Chongqing enterprises were able to develop economic combines, break through all sorts of barriers, survive and develop, lay in the fact that they had "mutual benefit" as their basis. Since they were mutually beneficial, they were bound to be voluntary; and since they were "mutually beneficial and voluntary," they were bound to abide by the principles of "equality and consultation" in the running of their internal affairs. In economic regions formed with central cities as the backbone, the central cities have no jurisdictional powers over the zones; they must set up combines with economic organizations outside the city, and cannot rely on administrative force to do so, but must develop them on the principles of "free will, mutual benefit, equality and consultation." The responsibility of central city governments lies in supporting these combines, and creating all sorts of conditions beneficial to their promotion, not in using administrative powers to interfere with combines.

Our country's war industry enterprises have great potential, with particular advantages in technology, and at the same time as fulfilling the state war industry task, the road of developing the economy through linking the army with the people is an important condition for speeding up our country's economic construction. Moreover, an important prerequisite for achieving this linkage between army and people is "mutual benefit." A good example of this is the Jialing motorcycle, produced by the Jialing machinery factory in combination with civil industries. This combine both saved a group of civil enterprises and solved the problem of making use of the potential of war industry enterprises; under the prerequisites of "mutual benefit," they made common contributions to economic development.

One common feature of the linking of army and people carried out by the Jialing and Wangjiang machinery factories was the full use made of their technological advantages. Unlike other war industry enterprises, they did not produce electric fans, washing machines, and other products which ordinary civil enterprises

are also capable of producing. They did not compete with civil enterprises, or duplicate production, but instead made use of their advantages, and produced high-precision products or services for the technical transformation of civil enterprises. They exploited their own technological advantages, but at the same time, in undertaking the production of civil goods, promoted the raising of their own technological level. This was also a sort of "mutual benefit."

/Third, economic combines undergo a natural process of development from near to distant, from simple to numerous, from small to large, and from dispersed to intensive. We must adroitly guide this according to circumstances [word indistinct] and promote its development; it is inadvisable to use administrative means of rushing headlong into mass action, or to go in for combines in a big way on the basis of a subjective vision./

In addition to emphasizing the principle of free will in organizing economic combines, the "temporary provisions for the promotion of economic combines" published by the State Council in 1980 also pointed out: "motivation from below should be combined with that from above, and with that from below as the main, gradual and orderly development should be achieved from easy to difficult. We must not rush headlong into mass action." The practice of these Chongqing enterprises has proved that combines with vitality are formed in an orderly, step-by-step manner. Of these enterprises, the process of development of the Changjiang agriculture, industry, and commerce integrated company is the most typical. Its development went through four stages: in the first stage, a combine was formed between state farms, and branch companies set up in several counties; in the second, on the basis of running properly the internal state farm combine, it radiated toward the outside, setting up combines with rural commune brigades, key, and specialized households, and establishing five specialized companies; in the third stage, interregional and interprovincial town economic combines were formed; and in the fourth, these combines were developed in depth. In their combines, the Chongqing clock and watch industry company and the Gunlin clothing company also followed a road of development from near to far, small to large, and from single combines to several. The motorcycle production combine organized by the Jialing machinery factory also went from internal to external, establishing regular cooperation with over 100 companies outside the combine. This orderly, gradual process of development reflects the needs of the objective laws of economic activity, and embodies a process which abides by the principles of free will, mutual benefit, equality and consultation.

In some places, where the reorganization and combination of industry is pushed forward primarily through administrative orders to set up companies or combines, it is often the case that while there was nominal integration, the economic results which should have been produced by integration were not seen. Some add another administrative level, but end up affecting work efficiency. This sort of combine lacks vitality: The reason for this is that they have ignored the principle of combining motivation from below with that of above, but with motivation from below as the main; they have not progressed in an orderly fashion according to objective laws, the result of which has been more haste, less speed. The construction of economic centers cannot be done by following this path.

/Fourth, economic centers cannot be isolated: their formation must rely on economic and technological advantages, and they must bring into play their role of serving the surrounding region./

The ability of city to become the central city of a certain economic region relies on bringing into play its nuclear, axial role in the fields of industry, agriculture and commerce. Since this role cannot be developed through administrative orders, it can only [phrase indistinct] economic and technological advantages. The Chongqing enterprises acted in precisely this way in order to become the "dragon's heads" of their combines.

The Chongqing clock and watch industry company was able to establish economic combines with areas inside and outside the province, and to become the center of the southwest clock and watch industry, not because it was invested with special rights of monopoly by administrative powers, but because it had certain economic and technological advantages, and adopted the policies of positive support and service toward participating enterprises: first, it helped these enterprises to carry out technical transformation, second, it gave technical and administrative support, and third, it gave advice on prices and financial support. It also trained all sorts of personnel for the combine enterprises, and sent backbone forces to help with work, enabling watch factories which had previously been unable to produce anything at all to produce up-to-standard watches. Because of this, the enterprises participating in the combine naturally recognized the Chongqing clock and watch industry company's status as the "alliance leader."

Chongqing's Qunlin shopping center used commerce to promote industry, and starting with a commercial-industrial combine, established the Qunlin clothing company, gradually developing this into an integrated clothing industry center. The key to all this lay in the fact that a group of technical experts gathered together, established a clothing technology research center, helped some technically backward clothing factories to train technical forces, transform their technology, and improve the quality of their clothing, and at the same time gave financial support, advice on material benefits, and guarantees for sales. In this way, though the Qunlin shopping center was small and could not possibly force anyone to do anything through administrative powers, it nevertheless became an interregional, interprovincial clothing center.

The Changjiang agriculture, industry and commerce integrated company was the same. It was able to become a center of agriculture, industry and commerce precisely because it was able to utilize its economic and technological advantages, on the basis of mutual benefit, to give positive support and help to members of the combine, and particularly to the development of rural commune brigades, and key and specialized households.

/Fifth, central cities should themselves become syntheses of industry, agriculture, and commerce, and from inside and out, strengthen lateral relations between the three, and promote the overall development of the economy./

The central authorities decided that "in economically better developed regions, the amalgamation of regional and city organs will be carried out, and the cities will lead the surrounding counties." This represents an important reform of the system. Its important significance lies in the fact that it changes the traditional concept of the city, and creates conditions beneficial to the breaking down of barriers between town and countryside.

Cities in capitalist countries have industry and commerce as their centers; they are separate from agriculture, and the antithesis of the countryside. In our previous system, industry and commerce were sharply divided from each other, which created the irrational situation of the separation between industry and commerce. The objective laws of economic development, on the other hand, require close combination of industry, agriculture, and commerce, their mutual promotion, and overall development. If central cities are to bring into play their role as economic centers, they must themselves become syntheses of industry, agriculture and commerce. It is necessary first to strengthen the lateral relations between industry, agriculture, and commerce within cities, and then, on this basis, to promote the overall development of the three in the surrounding area. From the practice of these Chongqing enterprises, we can see the objective need for this sort of development. The Qunlin shopping center broke down the barriers between industry and commerce, used commerce to promote industry, spurred on the development of the clothing industry, and then went a step further, stretching its network into the countryside. The Changjiang agriculture, industry and commerce combined company had agriculture as its basis, but on the basis of combining agricultural concerns, it developed combines between agriculture and industry and between agriculture and commerce, and broke down the barriers between agriculture, industry and commerce. What the Chongqing clock and watch industry company established was an interindustrial combine, but as its economy developed, it required the support of commerce, and the development of its own commercial network. On the road of linking army and people taken by the Jialing and Wangjiang machinery factories, the former factory, through interindustrial combination, set up a production combine involving war industry and civilian enterprises; while the Wangjiang factory did not set up a combine, but instead made use of its technological advantages as a war industry enterprise, working in the service of the technical transformation of civilian enterprises, which was essentially also a military-civilian combination. If we take all of the above combines together, we can discern a law of close combination between industry, agriculture, and commerce, and their overall development: If we are to develop commodity production, we must first dredge the channels of commodity circulation. Selling what is in demand, and producing what sells, is an objective law of economic development. Therefore, a central city, in order to bring into play its function as an economic center, must first become a center for commodity circulation; only then can it use commerce to promote industry and agriculture. Of course, on the other hand, only once industry and agriculture have developed can there be a rich material basis for commercial circulation.

In principle, everyone recognizes the mutually promotional role of industry and agriculture. But the question of how to strengthen this role in the process of system reform is a subject which requires serious investigation. The direct jurisdiction of central cities over the surrounding counties helps to use the

strength of the cities to hasten agricultural development. The modernization of agriculture should be carried out in the countryside surrounding central cities one step ahead of that of other areas. The support of its surrounding countryside by a central city both opens up internal markets and provides a sturdy basis for the supply of raw materials for its industries and of the means of subsistence. Therefore, under the prerequisite of using commerce to promote industry and agriculture, it is necessary to go through all sorts of channels to support agriculture with industry, and support industry with agriculture.

The strengthening of lateral combines and relations within industry also constitutes a question of mutual promotion between industries. One beneficial way of supporting industry with industry, for cities based on war industries, is to bring into play the technological advantages of that industry to spur on civil industries to produce high-precision goods (as in the case of the Jialing factory), or to help civil industries to carry out technical transformation (as in the case of the Wangjiang factory).

Since the 3d Plenary Session of the 11th CPC Central Committee, our country has implemented the principle of "enlivening the domestic economy, and opening up to the outside." This is a national policy. It should be said to be equally applicable to central cities. Central cities must become economic centers worthy of the name, and must also adopt the policy of "enlivening the domestic economy, and opening up to the outside." First, they must "enliven the domestic economy"; under the guidance of a unified plan, they must bring into play the initiative inherent in industry, agriculture, and commerce, break down the barriers between the three, and let them carry out all sorts of combines according to objective economic laws. Then, they must "open up to the outside," creating conditions enabling enterprises to move from internal to external, from near to far, developing different forms of economic cooperation and combination with the outside. Some combines will have their centers in the cities, and some will be outside the cities; this will depend on economic and technological advantages, and cannot be imposed. But as long as a central city is good at bringing its advantages into play, there will bound to be a large number of dragon's heads concentrated in that city, such that the city will naturally form into an economic center with certain advantages. After the gradual separation of government from enterprises, the major responsibility of the central city government will be to draw up policies, a development program for the region, and plans for short- and long-term production, circulation, and construction; and to guide and promote the development of all sorts of economic combines, and at the same time to work hard to complete the city's basic facilities, greatly improve energy and communications conditions, and to create conditions for the smooth development of industry, agriculture and commerce.

There are many issue involved in the question of how to bring into play the role of central cities; the above is of course highly incomplete, consisting only of some enlightenment gained from the practical experience of several economic combines in Chongqing, which might perhaps provide some reference for those of us researching into the construction of central cities.

## PROVINCIAL WORK REPORTS

### SU YIRAN REPORT AT SHANDONG PARTY CONGRESS

SK060344 Jinan DAZHONG RIBAO in Chinese 23 Jul 83 pp 1-3

[Work report delivered by Su Yiran, secretary of the Shandong Provincial Party Committee, at the fourth provincial party congress on 13 July 1983: "Thoroughly Implement the Guidelines of the 12th Congress of the Party and Create a New Situation in All Fields of Shandong's Work"]

[Text] Comrades:

Now, on behalf of the Third Shandong Provincial CPC Committee, I will deliver a work report to the fourth provincial CPC congress.

#### 1. A Review of the Work Done Since the Third CPC Congress

It has been more than 12 years since the third provincial CPC congress, which was held in April 1971. During this period our party experienced the great life-and-death struggle against the two counterrevolutionary cliques of Lin Biao and Jiang Qing and the great historical change from chaos to order effected after the Third Plenary Session of the 11th CPC Central Committee, traversing a tortuous road from hardships and setbacks to successful progress.

During the 10-year internal disorder, Shandong, like other parts of the country, suffered the most serious setbacks and damage since the founding of the PRC. Schemed and supported by conspirator, careerist, and counterrevolutionary double-dealer Kang Sheng, the agent of the counterrevolutionary cliques of Lin Biao and Jiang Qing and his company went in for conspiratorial activities to usurp the party and seize power. After the "3 February seizure of power," they again launched the so-called "antiadverse current" and "antirestoration" activities to oppose the party, throw the army into disorder, cruelly persecute cadres, and derociously suppress the masses, thus bringing a grave disaster to the people of the province. After the fall from power of the agent of the Lin Biao counterrevolutionary clique, the trusted follower of the Jiang Qing counterrevolutionary clique and his company continued to scrape together their factional forces to form groups to be stationed everywhere to instigate people to stop work and production, and plotted the "second seizure of power," thus again creating serious chaos in Shandong and seriously damaging the economy of our province. Under such difficult and complicated conditions, the masses of party members, cadres, workers, peasants, and intellectuals showed their strong

fighting spirit by adopting various measures to resist the criminal acts of the counterrevolutionary cliques of Lin Biao and Jiang Qing and to safeguard the interests of the party and the people. The PLA units stationed in Shandong make positive contributions to resisting and exposing the criminal activities of the agent, to supporting local cadres to work, to stabilizing Shandong's situation of that time and to restoring and developing production. Facts proved that the party and the masses of soldiers and civilians of Shandong were capable of fighting and could stand the test.

The third CPC congress of our province was convened during the period of chaos of the "Great Cultural Revolution." Although the congress criticized the crimes of the agent of the counterrevolutionary cliques of Lin Biao and Jiang Qing and stressed the need to give play to the role of veteran cadres and to successfully develop industrial and agricultural production, it, generally speaking, implemented the erroneous guiding principles of the "Ninth CPC Congress." The congress affirmed the "Great Cultural Revolution" and the "3 February seizure of power" in Shandong, negated the province's work done in the 17 years after the founding of the PRC and the former provincial committee and the people's committee, and put forward many slogans. This was wrong and must be corrected.

The work of the third provincial committee can be roughly divided into three stages:

1) The period between the last provincial CPC congress and October 1976 when the counterrevolutionary clique of Jiang Qing was smashed. During this period of 5 1/2 years, we implemented the guidelines of the CPC Central Committee's instructions when Comrade Zhou Enlai was in charge of the day-to-day work of the CPC Central Committee and when Comrade Deng Xiaoping was in charge of the day-to-day work of the CPC Central Committee in 1975, did some work for and achieved certain results in criticizing the crimes of the Lin Biao counterrevolutionary clique, supporting veteran cadres to resume work, criticizing factionalism, promoting unity, and grasping consolidation and production. Generally speaking, however, due to the interference and sabotage of the Jiang Qing counterrevolutionary clique, the provincial committee implemented erroneous theories, policies and slogans of the "Great Cultural Revolution," and the ideological, political and organizational guiding principles it implemented were all erroneous. History has judged the "Great Cultural Revolution" as an internal disorder which was wrongly launched by leaders and was utilized by counterrevolutionary cliques and which brought a grave disaster to the party, the state, and the people of various nationalities. The political movements and the incorrect criticism and struggles we waged under the guidance of the erroneous "left" principles hurt many good cadres and the masses. In so-called "criticizing Lin Biao and Confucius" and "counterattacking the right-deviation wind to reverse verdicts," the provincial committee publicized and implemented many reactionary speeches of the "gang of four," published many erroneous speeches and articles and did many erroneous things. Facts proved that the so-called issue of investigating Comrade Yuan Shengping was a major framed-up case deliberately created by the "gang of four." The activities to "expose and criticize Yuan" launched throughout the province in the

"criticism of Lin Biao and Confucius" were wrong. These activities not only confused right and wrong, called black, white, and attacked and damaged Comrade Yuan Shengping, but also implicated a great number of army and local cadres and people and damaged army-government and army-civilian unity. During this period, we also arranged jobs for and promoted some persons who build themselves up through rebellion, persons who had serious factional ideas and smash-and-grabbers. Some of them even participated in the core leadership of the provincial committee and some city, prefectoral, and county committees, grasped a great portion of power, and caused very bad influences and consequences.

2) The period between the smashing of the Jiang Qing counterrevolutionary clique and the 3d Plenary Session of the 11th CPC Central Committee. During these 2 years, we investigated the criminal history of Jiang Qing and Zhang Chunqiao in Shandong, exposed and criticized the counterrevolutionary crimes of the "gang of four," investigated the persons and deeds involved in the conspiratorial activities to usurp the party and seize power launched by the Jiang Qing counterrevolutionary clique, basically destroyed their factional network, and promoted the undertakings in various fields. During this period the major problem in the work of the provincial committee was that it accepted the erroneous views on "two whatevers," continuously carried out some "left" things, failed to attend to the major issue of the discussion on the criteria for truth, stagnated in its efforts to stop chaos and restore order and could not radically change the situation. The leadership of the provincial committee was hardly aware of the mistakes it committed during the 10-year disorder. Instead of conducting self-criticism and summing up experiences and lessons, the leading persons of the provincial committee said that they had acted against the "gang of four" and styled themselves as being "correct." They failed to effectively attend to the work to rehabilitate the cadres and people who had been attacked and persecuted by the counterrevolutionary cliques of Lin Biao and Jiang Qing. Instead of shouldering, of their own accord, the responsibility for the problems arising in various localities from implementing the provincial committee's erroneous directives, they absolved themselves of the responsibility and wrongly attacked some comrades at lower levels, making them feel wronged. This is a problem concerning right and wrong which we still have not properly solved in our efforts to stop chaos and restore order and which makes some comrades feel unhappy, thus affecting the unity within the party. In these 2 years, we also continued to publicize the "left" slogans of the "movement to learn from Dazhai," popularized the so-called "experiences" of Dazhai, set forth without forethought as task to "build an industrial province," worked out many grand plans and high targets, engaged in formalism, and gave arbitrary orders. We exaggerated our 1976 grain output estimation, and procured too much grain. This affected the people's lives and subjected some comrades at lower levels to recriminations. The responsibility for the problem should be shouldered by the provincial committee.

3) The period between the 3d Plenary Session of the 11th CPC Central Committee and now. These 4 years and more were a period of stopping chaos and restoring order and effecting the great change. It was also a period in which the province's work developed greatly. The situation was improved more year after year. Under the correct leadership of the CPC Central Committee, party organizations at all levels and the masses of party members, cadres and people

throughout the province conscientiously implemented the Marxist ideological, political and organizational lines defined anew at the 3d Plenary Session of the 11th CPC Central Committee, stopped chaos and restored order, corrected "left" deviationist mistakes, attended to economic construction, did a great amount of work, and achieved remarkable results. Focusing on studying, publicizing, and implementing the guidelines of the Third Plenum of the 11th Party Central Committee, the "resolution" of the sixth plenum, and the documents of the 12th Party congress, we have freed ourselves from old ideas; corrected our ideological lines; redressed and corrected unjust and mishandled cases; handled a large number of questions left over by history; solved problems for a large number of people in accordance with policy; sorted out a group of "three types of persons" who sneaked into leading bodies; promoted a group of middle-aged and young cadres with both ability and political integrity; consolidated and readjusted leading bodies at all levels; shifted the focal work of the party to socialist modernization in a step-by-step manner; implemented the principle of readjusting, restructuring, consolidating, and improving the national economy; relaxed the restraints of economic policy; carried out various forms of a production (operation) contract responsibility system; promoted a steady and sound development of economic construction; strengthened educational, scientific, and cultural work; attended to implementing the party's policy towards intellectuals; attended to both materially- and socialist-spiritual civilizations; strengthened the construction of socialist democracy and legality; tackled problems of public security in a comprehensive manner; dealt blows to serious criminal activities in the economic sphere and other fields; attended to the construction of the party itself; implemented the "code" of inner-party political life; and preliminarily consolidated party organizations.

Through the concerted efforts of a vast number of party members, cadres, and the masses, a good situation of political stability and unity and economic prosperity has emerged across the province. But this term of the provincial CPC committee has some mistakes in work. Our long-term lack of understanding the guidelines of the third plenum thoroughly and our hesitation to implement the key directives and resolutions of the central authority are the main reasons affecting the sound and fast development of the situation.

Viewing the examination of the previous work of the provincial CPC committee, we should conscientiously evaluate our profound experiences and this profound lesson firmly in mind.

Practice fully shows: The ideological line of proceeding from actual conditions, combining theory with reality, seeking truth from facts, and judging and developing truth from practice is the only accurate guide for our action. If we violate the guide, we will make mistakes. In the final analysis, the mistakes made by the provincial CPC committee before the Third Plenum of the 11th Party Central Committee were the result of deviating from the principle of seeking truth from facts. Some did not fully understand the principle and blindly adhered to it. Some were swayed by considerations of gain and loss under the pressure of the principle and some were opinionated.

After the third plenum, we still made such mistakes. The discussion of the issue of the criterion of truth, which began in 1978, is a sharp struggle between the Marxist ideological line of seeking truth from facts and the wrong principle of "two whatevers," the most important event of setting right the ideological and political work and a basic ideological construction of the party. But, owing to the deep influence of "two whatevers," leaders of the provincial CPC committee took a long-term wait-and-see attitude toward this great matter of principle, did not state their position even after stalling for a long time, finally only took a general stand, and made a general plan. In the summer of 1979, leading comrades of the CPC Central Committee inspected Shandong Province and urged that remedial lessons be given on the issue of the criterion of truth, but we still failed to conscientiously and vigorously attend to it. First of all, the Standing Committee of the provincial CPC committee did not hold any forum to conscientiously discuss the issue nor did it eliminate the influence of "two whatevers." This directly affects the way in which leaders free themselves from old ideas and which sets all things right. In recent years, we did not take firm and resolute measures to implement the line, principles, and policies of the party Central Committee; we were often in the state of weakness and laxity in eliminating the influence of "leftist" ideology and in overcoming the obstruction of "leftist" and rightist ideologies, and we often failed to smash the bonds of old economic conventions. The crux of the problem lies in our failure to attend to correcting the ideological line. Basically therein lies the fact that the provincial CPC committee was irresolute in implementing the principle of the central authority on readjusting, restructuring, consolidating, and improving the national economy in the beginning period. We underestimated the serious situation of the proportional imbalance of our province's economy for a long time and considered the proportional imbalance as the key to affecting the implementation of the principle of readjusting the national economy. The provincial CPC committee lagged behind the masses in implementing the output-related contract responsibility system; especially the system of fixing output quotas based on individual households and the system of allotting work to individual households. The provincial CPC committee did not finally implement the systems until leading comrades of the central authority inspected our province and fully affirmed the "double-contracting" system. This proves that we did not conscientiously study or deeply understand the directives of the central authority as well as that we seldom went deep into grassroots units to investigate, seldom evaluated the work of the masses, did not fully understand the situation at the lower levels, or lacked creativity in our work. We must notice the situation in which our province has not completely eliminated the negative influence of "leftist" mistakes and 10-year turmoils or has not thoroughly completed the task of setting the party's ideology and practical work right. Some negative factors continue to affect our unity, reform, and construction. We must adhere to the sole objective of judging truth from practices to further eliminate the influence of "leftist" ideology, correct ideological lines, and strive to fulfill the task of setting all things right in all fields.

Practice fully shows: Adhering to the correct organizational line is an important guarantee for effecting the correct ideological and political line. We must install leading bodies at all levels in line with the demands of "ensuring that the ranks of the cadres become more revolutionary, younger in average age, better educated, and, more professionally competent." There are

profound lessons with regard to the extremely significant issue of making use of personnel. Before the third plenum and especially before the smashing of the "gang of four," leaders of the provincial CPC committee had a pragmatic standpoint, put some heads of gangs and persons with special influence in important positions and caused serious damage. After the third plenum, the provincial CPC committee still had many problems in organizational work. The provincial CPC committee mainly failed to strictly, carefully, and vigorously attend to clearing "the three types of persons" out of leading bodies, still had a few questions to investigate, failed to properly arrange and make the most of the small number of comrades who seriously corrected their previous mistakes, consciously lagged behind, and was not determined to promote excellent middle-aged and young cadres in order to realize the replacement of old cadres by new ones. In the summer of 1979, while inspecting Shandong Province, leading comrades of the central authority talked about promoting excellent middle-aged and young cadres in the presence of comrades of the provincial CPC committee. But we did not pay attention to it and thus retarded the progress of ensuring that the ranks of the cadres become more revolutionary, younger in age, better educated and more professionally competent and we put ourselves in a passive position. The experiences and lessons in our cadre problems can be summarized as follows: It is necessary to adhere to the line of appointing people on their merits and select and promote cadres according to party spirit and principles. We must not take our personal likes and dislikes as the criterion, nor must we appoint people by favoritism or according to their factions. We must be good at uniting with comrades from all corners of the country, including those who have different opinions, and work with them. We must not reject different opinions and those holding them. It is necessary to judge cadres comprehensively on the basis of their history, their intrinsic quality and mainstream. We must not judge them by one case of a certain period, still less negate them totally once they commit mistakes. It is necessary to maintain organizational purity of leading bodies, resolutely eliminate from leading bodies and key posts the "three types of people," people who oppose the line of the CPC Central Committee adopted since its third plenary session and those with serious law and discipline offenses and never tolerate or shield them and leave hidden danger unresolved. It is necessary to follow the principle of promoting those in the prime of life who have both political integrity and ability when we promote cadres and strive to make leading bodies more revolutionary, younger, better educated and more professionally competent so as to meet the needs in the new period and new tasks.

As has been fully proved in practice, developing democracy within the party and upholding democratic centralism are the basic organizational principles that we should follow in order to exercise correct leadership, do our work successfully and commit fewer or no mistakes. A direct reason why our provincial committee committed mistakes in the past and failed to effectively uphold democratic centralism was that our inner-party life was not normal enough. The "members" of the Standing Committee of the provincial committee failed to create a lively, vigorous atmosphere in which they could air their views freely. Due to a lack of a strong sense of respect for principles, they neither held thorough discussions on major problems nor accepted correct and reasonable opinions and were reluctant to hear different opinions and held the right of a final say in their own hands. The provincial committee leaders did not listen sufficiently to the opinions of comrades at lower levels, particularly opinions

unpleasant to the ear. The failure in effectively upholding democratic centralism affected the unity in thinking and action and led to some problems which could have been avoided or solved. An indicator of a party organization's political maturity and its combat capability is its ability to conduct criticism and self-criticism boldly, to listen to different opinions and to expose and overcome of its own accord the shortcomings and mistakes in its work. This is also the party spirit that a leader, particularly the party's high-ranking cadres, should possess. In our future inner-party political life, we should pay close attention to implementing the principle of democratic centralism, "let everyone have his say," stop the practice of "what I say goes," give full scope to democracy, pool the wisdom of all, and see to it that every one speaks frankly and sincerely, stresses truth instead of face-saving, adheres to principles and corrects mistakes.

As has been fully proved in practice, enhancing our awareness in party spirit and resolutely acting in unison with the CPC Central Committee politically are the basic guarantee for the success in our various undertakings. The present CPC Central Committee is one of the best leadership collectives in our party history because it holds aloft the banner of Marxism-Leninism-Mao Zedong Thought, integrates the universal truth of Marxism with the concrete practice of our country under the new historical conditions and has creatively solved a series of major problems in our socialist revolution and construction. To party organizations at all levels and to every party member, acting in unison with the CPC Central Committee politically of their own accord is not only the most important political discipline but also the key to exercising correct leadership and leading the masses to create a new situation in their work. Generally speaking, we have shown political unity with the CPC Central Committee since the 3d Plenary Session of the 11th CPC Central Committee. The rapid development of the situation over the past few years is precisely the result of our implementation of the CPC Central Committee's line, principles and policies. However, the faults in the work of the provincial committee in this period as mentioned above show that we still lag quite far behind in doing this basic work. Practice tells us that if we truly want to act in unison with the CPC Central Committee politically, we should conscientiously study the basic theory of Marxism and the important instructions and resolutions of the CPC Central Committee and strive to raise our political and ideological levels and our awareness in party spirit. We should persistently integrate theory with practice and, instead of mechanically copying, transmitting and applying the CPC Central Committee's line, principles and policies, be good at turning them into the conscious acts of the masses. We should examine our work with the method of dividing one into two, be bold in exposing and correcting the shortcomings and mistakes in our work, not conceal our faults for fear of criticism and, still less, cover up our errors. We should also bravely wage struggles against the erroneous words and deeds which go counter to the party's line, principles and policies and safeguard, of our own accord, the high prestige of the CPC Central Committee and central leading comrades.

Comrades, we have reviewed the major points in the work of the third provincial committee and have summed up experiences and lessons. The purpose of this is to further clarify right and wrong, unify our thinking and understanding still

better, eliminate misunderstanding, unite as one to look forward and concentrate our efforts on the four modernizations. The "resolution" of the 6th plenary session and the documents of the 12th party congress have made correct conclusions on some major historical questions of the party since the founding of the PRC, particularly during the "Great Cultural Revolution." The 10-year internal disorder created a wide rift in our revolutionary contingents. Even at present the influence of factionalism is still impairing the unity and the party's cause in some localities and units. The remaining trace of the rift should not be left unerased, and this page of the history should be turned over forever. Except for a very few extremists, the overwhelming majority of the cadres and people involved in the movements in the early period of the "Great Cultural Revolution," no matter which mass organizations they joined, were good or fairly good. No more should they vie with one another to see who are better or winners, engage in factionalism and be warm to one group and cold to the other. Every party member and cadre should act according to party spirit and principles, take the whole situation into account, look ahead, voluntarily dispel misunderstandings and ideological burden and promote unity. Unity is one of the party's major political efforts, an indicator of the prosperity and development of our cause. Unity means strength. Only with it can we have success. We hope and are convinced that after this party congress the people within and outside the party, the army and the government, the army and the civilians, and the people of different departments at all levels will unite as one, act in unison and advance hand in hand for the grand goal of building a powerful, modern socialist state.

Now our country has entered a period in which to create a new situation in all fields of socialist modernization. A profound and tremendous change has taken place in the entire situation in our province as in other places of the country and a scene of prosperity has emerged on all fronts. The CPC Central Committee's line, principles and policies have been rooted deeper and deeper in the people's hearts and have become a tremendous force to promote socialist modernization. Our party has explored a road for building socialism with Chinese characters and leading comrades at all levels have gained more experience in the economic construction. The enthusiasm and creativity of the masses soaring higher and higher and an upsurge in the mass activities to learn and apply science is taking shape. The unity between the people in and outside the party and at higher and lower levels is increasingly strengthened. Following the step-by-step implementation of the organizational reform, an encouraging change is taking place in leading bodies and the entire cadres contingent. Over the past few years, agriculture "has taken the lead and is still developing." Output of farm and sideline produce has increased substantially and the peasants' income has doubled and redoubled. Industrial production has grown steadily in the course of readjustment and the economic results have been gradually improved. In commerce, both purchases and marketing have been brisk and markets have been prosperous.

Comparing 1982 with 1978, the provincial agricultural output value increased 38.3 percent--an average 8.5 percent increase every year--and grain output increased 3.8 percent, totaling 47.5 billion jin in 1982. Cotton output was 19.2 million dan, 6.2 times that of 1978. Peanut output was 28 million dan, which represented a 49-percent increase over 1978. The total income of the diversified economy was 16 billion yuan, a 130-percent increase over 1978. The industrial output value in 1982 was 26.1 percent higher than in 1978, which

meant an average annual increase of 6 percent. Light industrial output value in 1982 increased by 56 percent over 1978, an average increase of 11.8 percent a year. Retail sales of social commodities increased by 70.8 percent over 1978, averaging 14.3 percent a year. Procurement for export and foreign exchange earned from export increased each by about 100 percent. [as printed] On the basis of developed production, the people's lives have greatly improved. Per capita commune member's income was 304 yuan, which was 2.6 times that of 1978 in terms of comparable items. Per capita annual income of staff members and workers was 489 yuan, a 52-percent increase. Savings deposits in towns and in the countryside reached 5.11 billion yuan, 250 percent over 1978. New development was also achieved in education, science, culture, public health, physical culture and sports, press and publication. Remarkable achievements were also scored in family planning. The work concerned mass organizations, the people's armed forces departments, and the united front was also encouraging. We firmly believe that as long as we correctly learn from our past experiences and lessons and unswervingly implement the CPC Central Committee's line, principles, and policies, the masses of party members, cadres, and people throughout the province will have a better mental outlook, their enthusiasm will be further aroused, and our various undertakings will develop more rapidly. It should be said that Shandong's work is full of promises.

Comrades, the 12th party congress set forth the general task for the entire party in the new period and defined the fighting principle, the grand objective, and strategic measures. The major task for party organizations at all levels and party members throughout the province for the present and for some time to come is, under the leadership of the CPC Central Committee, to mobilize the people of various nationalities throughout the province to thoroughly implement the guidelines of the 12th party congress and the 1st session of the 6th NPC, and promote unity, reform, and construction. Continuous efforts should be made to carry out the principle of readjusting the national economy, persistently proceed from reality, successfully conduct the reform comprehensively, systematically, resolutely, and in an orderly manner, improve socialist democracy and legality, improve the party's ideology, workstyle, and organization, strive to achieve a fundamental turn for the better in the financial and economic situation, social conduct, and party style in our province, and open up a new situation in all fields of socialist modernization.

## 2. Persistently Center on Economic Construction and Strive To Realize the Fighting Objective by the End of This Century

The strategic objectives, priorities, and steps and a series of principles and policies concerning our nation's economic construction by the end of this century, set forth at the 12th party congress, reflects the objective law of our nation's economic and social development, define the orientation of our economic work and a principle, which everyone should adhere to, and express the will and hope of the whole people of the country. We must speed up the pace of our province's economic construction and strive to promote the comprehensive upsurge of socialist economy in line with the strategic plan of the party Central Committee and Shandong Province's actual conditions.

1) A Tentative Plan for Our Province's Objective on Economic and Social Development by the End of This Century

(a) Quadruple the total industrial and agricultural output value. On the premise of continuing to raise the economic results, the province's industrial and agricultural output value will rise from 52.4 billion yuan in 1980 to 210 billion yuan by 2000. Of this, the agricultural output value will raise from 19.4 billion yuan to 70 billion yuan, an increase of 260 percent, and the industrial output value will rise from 30 billion yuan to 140 billion yuan, an increase of 320 percent. Financial revenue increases at an annual average rate of 6 to 7 percent. Our province should strive to double the industrial and agricultural output value in the first 10 years.

(b) The output of major industrial and agricultural products should increase by a big margin. By 2000, grain output will rise from 47.68 billion jin in 1980 to 70 billion jin, averaging 800 jin per person; cotton output will rise from 10.74 million dan to 27 million dan; peanut output will raise from 28.08 million dan to 40 million dan; the output of raw coal will rise from 42.9 million tons to 85 million tons; the output of crude oil will rise from 17.58 million tons to 60 million tons; and the total output value of industrial consumer goods will rise from 16.9 billion yuan to 70 billion yuan. In this way, the whole province will be self-sufficient in grain and major nonstaple fodstuffs with higher levels and will be more than self-sufficient in cotton, oil-bearing crops, crude oil, coal, and industrial consumer goods and will make contributions to the country.

(c) Achieve a fairly great development in foreign trade. By 2000, the total value of export commodities will amount to about 10 percent of the total industrial and agricultural output value, and foreign exchange earned from export will rise from US\$1.76 billion to US\$7 billion.

(d) Economic results and technology should comprehensively reach a new level. By 2000, the economic results of industrial and commercial departments will attain or surpass the 1980 level of the same trades and occupations in Shanghai. Most production techniques of the major fields of industrial and transport departments should reach the common early-1980's level of developed countries and some should approach the advanced world level. Agriculture should be basically mechanized and rural areas should be electrified.

(e) People should be well off materially and culturally. By 2000, the population of our province should be below 86.3 million, per capita income will reach 1,200 yuan, per capita consumption of the rural people will rise from 217 yuan in 1980 to 700 yuan, conditions for rural housing, power for daily use, transport and communication, and ecology and environment will be greatly improved, people's health conditions will be remarkably improved and the educational level of young people will reach the secondary educational level.

If we realize this objective, our province's economic and social undertakings will flourish overall, our province will make a big stride in building the socialist modernization, and the total volume of people's income and the output of some major industrial and agricultural products will occupy a forefront place in the country. This is an extremely honorary and arduous task. We must overcome many difficulties in the course of development. However, we should also notice the fact that our province has many superiorities for developing

the economy. Our province's geographical position, climate, natural resources, and communications and transportation conditions are fairly good and our potential for production is very great. After over 30 years of construction, the whole province has fairly good material and technical bases and both positive and negative experiences. So long as we unswervingly implement the line, principles, and policies of the party Central Committee, fully rely on the great creativeness of the broad masses of the people, work with a will to make the country strong, go all out, be enterprising, and work arduously, we will certainly attain the fighting objective by the end of this century.

In order to realize the 20 years' fighting objective, we must take two steps. In the first 10 years, we should concentrate on laying a good foundation and accumulate strength to create conditions for making the economy flourish in the latter 10 years. Realizing the Sixth Five-Year Plan is a key step for the first 10 years. Comrade Liang Buting made a report on the Sixth Five-Year Plan to the First Session of the Sixth Provincial People's Congress. The report has been approved. We should conscientiously implement the plan item by item and ensure its fulfillment and overfulfillment. During the 5-year period of from the present party congress to the next party congress, we should continue implementing the principle of readjusting, restructuring, consolidating, and improving. While effecting a fundamental turn for the better in our province's financial and economic situation as soon as possible, we should conscientiously prepare to make our economy flourish. This includes: Work out a plan for long-term and short-term development, speed up the pace of economic reform, readjust, consolidate, restructure, and combine the existing enterprises, improve operation and management, remarkably raise economic results, make preparations for developing talented persons and technology, expand intellectual ability, speed up the development of educational and scientific undertakings, conduct technical transformations among existing enterprises in a step-by-step manner, concentrate energy on constructing the key projects in accordance with strategic objectives, and essentially set up a consumer goods industry, export product industry and raw material bases so as to enable the material conditions to suit the needs of economic development. Achieving these will not only benefit the realization of the Sixth and Seventh Five-Year Plans, but will also lay a good foundation for making the economy flourish in the 1990's.

## 2) Firmly Attend to the Strategic Priority in Developing the Economy and Bring Our Province's Superiorities Into Full Play

In line with the strategic priority in economic construction, set forth at the 12th party congress by Comrade Hu Yaobang and the 10 principles for our nation's economic construction, set forth at the 4th Session of the Fifth NPC by Comrade Zhao Ziyang, from now on our province's economic construction should firmly attend to three strategic priorities--agriculture, energy and transport, and education and science--should bring our province's superiorities into full play, and conscientiously attend to agricultural diversified economy, the production of consumer goods, chemical industry, and foreign economic trade so as to promote the development of the economy as a whole.

(a) Speed up the comprehensive development of agriculture and accelerate the pace of modernizations. The geographical position is warm, the climate is good, and the coastline is long, so our province has favorable conditions for comprehensively developing agriculture, forestry, animal husbandry, and fishery.

Because rural people account for 90 percent of the total population, the agricultural situation occupies a decisive position for the whole province's economic development, the improvement of rural people's livelihood and social stability. At no time or under any circumstances can we neglect or ignore agriculture. We must take the agricultural development as a strategic priority and place the work of agricultural development before everything else, persistently take the road of comprehensively developing agriculture, forestry, animal husbandry, sideline occupation and fishery, and comprehensively operating agriculture, industry and commerce, and accelerate the transformation from self-sufficient and semiself-sufficient agricultural economy to the production of commodities on a larger scale and from traditional agriculture to modern agriculture.

It is necessary to unswervingly implement the policy of "never relaxing crop cultivation while diversifying the economy" and to establish and maintain a rational agricultural structure. Ours is a small province with a large population. With limited arable land, our province should always give prominence to grain production in developing cropping industry, implement the policies which encourage grain production, ensure steady growth of grain, and attain self-reliance in grain supply. In the meantime, we should develop cash crop production in line with specific local conditions. Therefore, we should strengthen land management, strictly forbid arbitrary occupation of cultivated land and maintain 110 million mu of cultivated land, of which grain fields should be no less than 70 million mu. We should strive to build high- and stable-yield fields. Comprehensive measures should be taken to improve dry, waterlogged, and alkaline land so as to basically turn the 40 million mu of cultivated land along the Huang He into high- and stable-yield land and into important cotton and grain production bases. Great efforts should be made to conserve water and soil in mountainous and hilly areas and develop dry farming. We should engage in scientific farming, concentrate efforts on increasing per-mu yields, vigorously breed and popularize fine strains of crops, rationally raise multiple cropping indices, irrigate and apply fertilizer in a scientific way, increase land fertility, and intensify plant protection. In developing agriculture as a whole, we should keep in mind the total area of 230 million mu. While making the best use of current available cultivated land, we should march toward barren hills, wastelands, and idle water areas and beaches to exploit and utilize in a reasonable way all resources that can be exploited and utilized. While attending to cropping industry, we should comprehensively develop forestry, pomiculture, animal husbandry, fishery, industrial sideline occupations, transportation, construction and service industries, and various household sideline production. Following the development of farming, forestry, animal husbandry, and fishery, we should, under the guidance of state plans, make use of local resources to vigorously expand cooperative economy focusing on processing farm and sideline products to increase their value and gradually establish commune- and brigade-run industry and cooperative industry which have their own characters and which coordinate with one another in their development. We should make rational use of our fodder resources to accelerate the development of fodder industry. By the turn of this century, the proportion of forestry, animal husbandry, sideline production, and fishery in the total agricultural

output value should be raised from 31 percent in 1980 to more than 60 percent, and more than 60 percent of rural laborers should be engaged in diversified production or in work at cooperative enterprises so that surplus laborers will not leave rural areas while leaving farming.

It is necessary to pay persistent attention to farmland improvement projects and vigorously improve technology for agricultural production. The key points of farmland capital construction in the province should be placed on improving the medium- and low-yield farmland along the Huang He, developing mountainous areas, exploiting and utilizing beaches of shallow seas and the Huang He delta. A lack of water resources and low vegetation rate are the major problems to be tackled. We should successfully exploit and utilize water resources--diverting water from the south, utilizing Huang He water in a scientific manner, diverting Huang He water to support Qingdao and Zibo, tapping ground water sources, making full use of surface water, improving irrigation conditions, and expanding irrigated areas. We should step up tree and grass planting. In the first 10 years, efforts should be made to plant more and fell fewer trees, plant suitable trees on all areas good for afforestation, strive to basically bring soil erosion under control, cover 25 percent of the province's land with trees by the end of this century, and gradually achieve ecological balance. Plans should be worked out anew for farm mechanization and rural electrification so as to gradually increase power supply to rural areas. All trades and professions should render support to agriculture. Its development should, however, be achieved mainly through the forces of collectives and the masses and through labor accumulation.

It is necessary to adhere to the basic policy that "the public ownership of the basic means of production will not change for a long time to come and the production responsibility system for the collective economy will also not change for a long time to come," and to continue to stabilize and improve the output-related contract responsibility system. We should widely apply the output-related contract responsibility system to farming, forestry, animal husbandry, sideline production, and fishery and to industrial and commercial trades. We should fully develop the production potential of the economy of individually contracted households and vigorously increase various specialized and key households and economic integrity. The relationship between unified and separate management and between specialized households and economic integrity should be properly handled. In compliance with the needs of commodity production and exchange, more specialized service companies should be set up to render good service prior to and after production and to create favorable conditions for achieving agricultural modernization at an early date.

(b) Tremendous efforts should be made to develop industry which has more advantages and which focuses on energy and transportation. With fairly abundant mineral resources and occupying an important strategic position, our province has considered energy and transportation strategic priority. This is not only an urgent need in developing our province's economy but the responsibility we should shoulder to the state. We should accelerate prospecting of coalfields, oilfields, and gasfields and intensify rational exploitation. We should follow the principle of combining the efforts of the state, the

locality, and the masses in operating mines to energetically develop local coal mines and facilitate joint operation of collieries and power units. Continuous efforts should be made to step up the construction of powerplants. In addition to expanding some of the existing powerplants, we should consider using the river water diverted from the south to build fairly large-scale thermal powerplants in coal-producing areas in the southwestern parts of the province. We should pay attention to the utilization of diverse energy sources, such as marsh gas, the sun, wind, and nuclear energy. We should adhere to the principle of emphasizing both exploitation and conservation and exert great efforts to conserve and comprehensively utilize energy. In energy and transportation development, in addition to guaranteeing the fulfillment of the state-assigned railway, harbor and aviation construction, we should enthusiastically develop inland water transportation, raise the transport capacities of Yun He and Xiaoqing He by making use of the project to divert water from the south, transform small ports along the coast, and expand onshore transportation and through transport by river and sea. We should also accelerate highway construction in mountainous areas, improve some key highways, and develop transportation of big-tonnage vehicles. Postal and telecommunications facilities should be improved and modern telecommunications means increased. By the end of this century, a transportation network of railway, highway, harbor, and shipping and a postal and telecommunications network which conform to the four modernizations should be basically completed.

We should make the maximum use of our superiority of rich oil, coal, and marine resources to speed up the development of the petrochemical industry, coke chemical industry, marine chemical industry, basic chemical industry, and fine chemical industry. In addition to completing the assigned 300,000-ton ethylene, 600,000-ton soda ash projects and some chemical fertilizer and pesticide projects, after the "Seventh Five-Year Plan period" we should strive to build a second large petrochemical complex in Dongying City and build petrochemical enterprises of a considerable scale in the southwestern parts of the province by making use of the natural gas of the Zhongyuan oilfield, so that our province will become one of the country's key petrochemical industrial bases and be able to sell a fairly great amount of oil and chemical industrial products on the international market.

It is necessary to fully utilize our province's superiority of rich materials and wide markets to greatly develop commodity production. In our province, the emphasis should be placed on production of textile products, foodstuffs, plastics, building materials, medicines, paper, ceramics, machines for daily use, and household electric appliances. We should give priority to such production in various fields, speed it up, and produce some key products which have a competitive edge so as to promote consumer goods industry as a whole. In the meantime, we should greatly develop labor-intensive products, such as handicrafts and minor commodities for daily use, so as to enrich the people's lives and expand the sources of export goods.

(c) It is necessary to pay close attention to the development of intellect capability and rely on science and technology to promote economic development. It is of great immediate and far-reaching historical significance that the 12th party congress defined education and science as a strategic priority. Socialist modernization should be achieved on the basis of developed education

and advanced science and technology. Knowledge means strength and science and technology mean productive forces. Our party organizations at all levels must fully understand the extreme importance and urgency of the development of education and science, sincerely regard it as a strategic task and make resolute efforts to promote it.

Scientific and technological work should be geared to economic construction. We should step up the research and development of applied sciences and the wide application of various new technology, formulate policies on technology in line with the situation of our province, establish and improve scientific research, application and technical education network, and the scientific and technological information network, and successfully operate key scientific research, technological development, and information institutes and scientific and technological centers. Scientific and technological work concerning agriculture, energy, transportation, marine and aquatic resources, light and textile industries, machinery, electronics, chemical industry, new materials, environmental protection, family planning, and medicine and public health should be strengthened, and advantageous resources should be developed and utilized. Efforts should be made to intensify the study of economic management and enterprise operation and management. We should organize scientific research units to cooperate in carrying out the tasks which affect the overall situation of economic construction and which can yield great economic results. We should facilitate technical transformations and the updating and upgrading of products in various trades by importing advanced technology and key equipment from abroad which are suitable for our use, assimilating and reproducing them. Governments at all levels should set up science and technology leading groups to take charge of overall planning and management of scientific and technological work and to study and implement policies which encourage technical progress.

Education is the foundation for development of intellectual capability. It shoulders the heavy task of improving the scientific and educational standards of the entire nation and of supplying specialized and technically competent personnel to all quarters. Capital construction also takes a comparatively longer period. Therefore, it should be placed ahead of other undertakings. Through educational reform and various forms of education, such as specialized and spare-time education, the province will train 1.3 million competent people of university or college educational level, a considerable number of graduate students and corresponding middle-grade technical personnel in 20 years so as to meet the needs of economic and social development.

Education is the weakest link among the strategic priorities of our province. We should be firmly determined to raise more funds and throw in more manpower to develop education and scientific research. In the future, the increase of education and scientific research funds in the provincial expenditure should be greater than that of revenue. Because the state's financial resources are limited at present, we should arouse the enthusiasm of all quarters to build schools and research institutes, increase teaching and scientific research facilities, and improve teaching and research conditions. In addition to increased financial investment, we should encourage economic departments and rural people to raise funds. Only by so doing can we fairly rapidly develop education and science.

(d) It is necessary to vigorously expand foreign trade and economic and technology exchanges with foreign countries. As a coastal province, we have good harbors open to foreign countries. We should regard foreign trade as a strategic measure, make the best use of the international market, international resources, and advanced foreign technology, enhance our capacity for self-reliance, and promote our economy. Making good plans for export is the key to expanding foreign trade. We should speed up construction of export commodity production bases and specialized plants, mines, and workshops, develop "competitive" commodities in a planned manner and gradually establish a foreign trade production network which combines agriculture with commerce, industry with commerce and production with marketing and which can satisfy the changing demands of the international market.

It is necessary to actively import equipment so as to boost production of products for export and to carry out the business of using imported materials to process things for export. The coastal cities like Qingdao and Yantai, in line with the principle of "carrying out internal integration so as to promote exports," must build themselves into foreign trade bases as soon as possible and must strive to gradually produce commodities especially for export and to process commodities with imported materials. Cities, including Jinan and Weifang, which have fairly good technical conditions must also increase the proportion of commodities for export and of commercial products which are processed with imported materials. The study of international market trends and the exchange of market information must be strengthened. Continued efforts must be made to readjust the mix of commodities for export, to consolidate and develop the existing markets, to open new markets and strive to increase foreign exchange earnings from exports. The growth of foreign trade in the province must be higher than the speed of development of industrial and agricultural production. Under the principle of equality and mutual benefits, we must seek an opportune time to extensively use processing techniques and equipment, carry out compensatory trade, cooperative production, and joint ventures, and make better use of foreign funds and technology to carry out technical transformation in existing enterprises, to develop energy resources, to conduct major economic undertakings, and to establish an ocean going fleet. In addition, we must also actively sign contracts with foreign countries, carry out cooperation on labor affairs, and develop tourism so as to greatly increase foreign exchange earnings from undertakings other than trade.

### 3. Continue To Eliminate the 'Leftist' Influence and Accelerate the Pace of Economic Reform

Since the 3d Plenary Session of the 11th CPC Central Committee, our province has eliminated the "leftist" influence in the economic sphere, implemented the principle on readjustment, done lots of work, and scored good achievements, especially in readjustment and reform in the agricultural sphere. However, as far as the whole economic work is concerned, the "leftist" things and some old ideas, conventions, and stereotypes still shackle our minds and hamper our initiative, affecting the deep development of readjustment, consolidation, reform and production. For example, we have failed to fully develop diversified undertakings and expand economic and technological exchange with

foreign countries and, in terms of production, we have paid too much attention to production speed and output value at the expense of economic results. We have stressed quantity and the establishment of new plants and have neglected quality, product designs and varieties, the tapping of the potential from existing plants and technical transformation. In terms of management system, we have failed to divide the duties between administrative units and enterprises and have created barriers between towns and counties, between higher and lower levels, and between departments and regions. There is a dislocation in responsibilities, rights, and profits of enterprises. In terms of distribution, we have failed to completely solve the problems of "eating from a common pot," holding "an iron rice bowl," practicing equalitarianism, and of stressing production at the expense of production circulation and the production of consumer goods. In order to further improve our province's economic work and to achieve the immediate and long-term objective for economic construction, we must continue to eliminate the "leftist" influence, emancipate our minds, comprehensively implement the readjustment policies and accelerate the progress of reform.

(a) We must consider the improvements in economic results as our starting point in carrying out all economic work. The key issue of readjusting the economy is to shift the entire economic work to the orbit of improving economic results. After years of effort, on the whole, our province's major proportions in various production sectors have become basically balanced. However, irrational phenomena still exist in the structures of industry, products, technology, enterprises, and organizations and in the distribution of industrial and economic units, hindering improvement in economic results. Leadership at all levels must consider improvements in economic results as the central task of economic work and must exert efforts to grasp it well. Economic readjustment and consolidation reform, and technical transformation must be conducted in line with the objective of improving economic results in society and increasing state revenue. It is necessary to properly handle the relations between production speed and economic results, between microcosmic benefits and microscopic benefits, and between partial benefits and the overall benefits, so that the entire company, under the premise of raising economic results, will keep a proper development speed and will follow a new path of steady growth, better economic results, and more actual benefits for the people.

(b) Successfully conduct consolidation and technical transformation among existing enterprises. At present, our province has made certain achievements in industry and agriculture. By the end of 1982, our province had 6,960 industrial enterprises at and above the county level and over 12,200 industrial enterprises, run by communes and neighborhood. These enterprises have still not brought their potential for production into full play. In order to enliven the economy and realize the doubling goal, we must not rely on constructing new projects, but should concentrate on conducting consolidation and technical transformation among existing enterprises and on shifting the focus of extended reproduction from quantity and quality. In line with the guidelines of reform and the needs of consolidation, all enterprises should conscientiously implement the relevant "regulations" of the party Central Committee, successfully build the ranks of leading bodies and staff members and workers, enact the economic responsibility system of combining duty with right and benefits,

institute and improve all categories of rules and regulations, achieve technical transformation, and gradually renew existing equipment and production technology. Further efforts should be made to achieve the work of closing down, suspending, amalgamating, and converting the production of some enterprises and the enterprise reorganization and amalgamation work so as to make the most of the workshops and equipment of existing enterprises to produce more marketable products. In line with the principle of specialize cooperation and through reorganization and amalgamation, the old enterprises which are able to undertake certain production tasks should not set up new workshops. Under the leadership of local party committees and governments, all provincial-level responsible departments should make a unified plan, give directions in accordance with different categories, and organize strength to implement the plan. We should strive to achieve the enterprise consolidation work with high quality, to set up a group of model enterprises, emerging from technical transformation, and to bring the functions of existing enterprises into full play in the course of the four modernizations during the "Sixth Five-Year Plan" period.

(c) Concentrate strength on ensuring the construction of key projects. Concentrating financial and material resources on ensuring the construction of key projects is a guiding ideology of great significance in economic construction that was set forth by the party Central Committee. The report of the 12th party congress and leading comrades of the party Central Committee repeatedly expound the great significance of this guiding ideology. Recently the party Central Committee definitely pointed out: Concentrating strength on ensuring the construction of key projects is a strategic issue regarding the four modernizations as a whole. Its significance is as important as the ideology of further readjusting the national economy, put forward in 1980. We must deeply understand by enhancing our thinking, have a unified understanding, and persistently implement it. We must notice: Since last year, the scale of capital construction has begun expanding again; especially, the construction projects not covered by the budget plan are too large in investment and scale, and the unhealthy trends of arbitrarily raising prices and extorting funds from higher authority have emerged in some localities. Thus, the pressure on energy and transport is being aggravated, and the construction of state-assigned key projects is being affected. If we do not make a prompt decision to change the situation in which capital construction is blindly underway and construction funds are not well concentrated, a comprehensively strained economic situation will be created, a bad ratio in the economy will be recreated, and the four modernizations, which are of vital importance, will be affected. Just as Comrade Chen Yun pointed out: If we cannot accomplish great issues, we will not be able to accomplish minor issues, either; and eventually we will come [word indistinct] nothing. We must understand this principle from the historical lessons, adhere to the principle of "first, feeding the nation and second, building the nation," consciously obey the demands of the whole situation, and concentrate financial and material resources on supporting the construction of key state projects. During the "Sixth Five-Year Plan" period, 5 of 70 state-assigned key projects are in our province. The state will assign a group of key projects to our province during the "Seventh Five-Year Plan" period. Our task of ensuring the construction of key projects is honorary and arduous. First, we should strengthen our leadership over key projects, promptly solve the problems of land requisition,

house dismantlement and movement, construction forces, supply of local materials, strive to strengthen the time of construction, and ensure to fulfill the construction task with high quality and high standards on schedule. Second, we should resolutely stop the unhealthy trends of arbitrarily raising prices and extorting funds from higher authority and clearly investigate and strictly handle the arbitrary raising of prices and the [word indistinct] of the state. We should never be calm and indulgent toward such a situation. Third, we should strictly control the scale of capital construction, and decisively stop the construction of the projects for the manufacture of ordinary products, especially those not covered by plan, blind and duplicate projects, and projects with poor economic results and great difficulties in production, supply, and marketing. And fourth, we should, in accordance with the rules of the party Central Committee, strictly concentrate the financial and material resources which should be concentrated on key state projects.

(d) Maintain the dominant status of state-owned economy and develop a diversified economy. In line with our nation's level of productive force, we should enthusiastically develop collectively owned economy and properly develop individually owned economy under the dominance of state-owned economy. We must notice that in order to quadruple the economic objective, we should rely on developing all forms of collectively owned (cooperatively owned) economy to a great extent and essentially rely on the make-up of individually owned economy. Having all things dominated by the state-owned economy is not geared to actual conditions. But, owing to the long-term influence of "leftist" ideology of the more publicly owned the better, the development of our province's collectively owned (cooperatively owned) and individually owned economies is restricted and discriminated against to a certain extent. We must promptly overcome this situation. In accordance with the guidelines of relevant directives of the party Central Committee and the State Council, we should conscientiously investigate and tackle the existing problems in this field, enthusiastically support and give directions to the development of collectively owned (cooperatively owned) and individually owned economies, bring the enthusiastic functions of diversified economic forms into full play, make the rural economy flourish and make the livelihood of the people convenient.

(e) Comprehensively enact the economic responsibility system and persistently overcome egalitarian practices in distribution. In order to fully arouse the enthusiasm of enterprises, establishments, and laborers, state owned and collectively owned units should enact the operation and management responsibility system which combines duty with right and benefits and overcome the malpractice of "everybody eating from the same big pot." We must realize that the reform in urban areas is more complicated than that in rural areas. The industrial and commercial responsibility systems are different from agricultural, scientific and technical, cultural and educational, and other fields of responsibility systems as well as the industrial and commercial responsibility system. All should proceed from reality and implement the responsibility system which is suitable for the characteristics of their own trades. Never should they follow the same pattern. The implementation of the system of substituting taxes for the delivery of profits among state-owned enterprises is a great reform and we must conscientiously achieve it. No matter what kind of

responsibility systems we implement, we must correctly handle the relations of profit distribution among the state, the enterprises, and the individuals. At present, some localities and units have the situation in which the enterprises retain a greater part of the profits, the individual workers obtain a greater share of profits, and the delivery of profits to the state is reduced. We must resolutely correct this situation. The aim of attending to economic reform and enacting economic responsibility systems is to enhance the sense of being a master on a responsibility basis among staff members and workers, to raise their work efficiency, and to promote the development of production. We must strengthen political education and carefully conduct ideological work among staff members and workers so that enterprises will make both material and spiritual achievements and become real socialist modern enterprises.

(f) Do a good job in the construction of cities and towns and allow cities to play an active part in organizing the economy. With the development of industry and agriculture, cities are playing an increasingly prominent role in economic activities. It is necessary to reform the regional management system of creating barriers between town and country, between higher and lower levels, and between different departments and regions and to gradually set up various leadership systems with a focus on economically developed cities and foundation in the vast countryside so as to enable cities to help promote work in the countryside. In accordance with different geological positions, natural resources, historical development, and practical foundations, we must define the nature and development orientation of cities and build them into economic zones with various characteristics. By the end of this century, the province as a whole will have gradually built an economic network and a social structure of economic cooperation between towns and cities and among agricultural, industrial, and commercial units in 20 large and medium-size cities, some 100 counties, and a considerable number of towns. We must allow large and medium-size cities such as Jinan, Qingdao, Zibo, and Zaozhuang, to play an active part in organizing economic activities and to gradually expand their administrative areas and their limits of authority. We must gradually develop some medium-size and small cities including Jining, Yantai, Weifang, Taian, and Dezhou, establish cities that are under the jurisdiction of the provincial government, and practice the system of cities administering counties. Cities must be gradually built in some industrially-developed counties such as Linyi, Heze, Yidu, Liaocheng, and Linqing counties and must strive to carry out cooperation between industrial and agricultural units and between cities and towns. Basically, provincial-level departments and bureaus and prefectures will not directly manage enterprises with the exception of some provincial companies and large key enterprises. The present enterprises that are under the administration of provincial and prefectural organs, in principle, must be gradually administered by cities where they are located. While stressing the role of cities, we must pay attention to controlling the scale of large cities, rationally develop medium-size cities, establish more small towns, and realistically prevent population growth in cities. In the construction of towns and cities, we must persist in the principle of protecting the environment, rationally developing and utilizing natural resources, providing favorable conditions for production and for the people's daily life and occupying less land. Construction in towns and cities must be rationally distributed, economic, social development, and environmental protection plans must be mapped out simultaneously, and the results of these three plans must be integrated.

(g) Clear the channel of circulation of commodities under the guidance of the unified state plan. With the unceasing development in production, the questions on how to broaden the circulation channel, how to open up domestic and foreign markets and how to better coordinate the relations among production, distribution, exchange of products, and consumption have become very prominent in the current economic work. It is true that production determines the circulation and consumption of products, however, production cannot continue in the absence of circulation and consumption. Only by adopting the policy of encouraging and guiding the consumption of products and by enabling the increase in consumption of products to keep pace with the increase in production, can we invigorate economic development. In line with the demand of developing the production of commodities and expanding the exchange of products, we must break the shackles of natural economic ideology, attend to circulation and consumption of products as we did in production, and strive to develop unified socialist markets. It is necessary to accelerate the reform of commercial units and supply and marketing cooperatives so as to keep pace with the rapid development in commodities. In terms of guiding ideology, we must persist in the principle of having the planned economy play a dominant role and market regulation play a supplementary role, and integrate mandatory planning with guided planning and market regulation. On the premise of keeping the prices of commodities basically stable, we must reform the pricing system and strengthen the management of prices. While correctly employing administrative and legislative measures, we must make better use of the economic levers such as prices, tax revenue, adn [as printed] credit, control large projects, give more decision power to small projects, and realistically achieve the goal of managing projects but not very rigidly and of managing projects more flexibly but orderly.

(h) Attend to social and economic development plans. Economic and social development is a complicated overall project with a very rich content as well as a very important scientific research work. It needs an overall planning, scientific designs and a comprehensive arrangement. Practice has proven that we must formulate a long-term plan to integrate economy, science and technology, and social development in order to avoid blind actions and the practice of attending to one thing and losing sight of another, and to mobilize thousands and thousands of people to struggle for economic and social development with joint efforts. Departments at all levels and all trades and professions should conscientiously work out the fighting goals, orientation of development, strategic priorities, and necessary major measures for the next 5 years, 10 years, and 20 years in line with the demands on economic construction set forth by the country and the province. Regional plans for land management is the foundation for formulating long-term plans and, therefore, should be successfully carried out. Family planning is one of our basic national policies. We should persistently pay simultaneous attention to material production and population increase and, while making plans for material production, successfully formulate plans for population increase, implement family planning measures, and conform population growth to economic development as a whole. We must proceed from reality when we make plans. A 300-percent increase is the general fighting goal for the province. However, each specific locality, trade, or unit should not seek "uniformity," and its goal may be higher or lower than this figure. Party committees at all levels should be good at mobilizing the masses with plans and should organize forces from all quarters to carry out current work in a down-to-earth manner.

As the focus of the whole party has been shifted to economic construction, party committees at all levels should conscientiously strengthen and improve their leadership over economic work. Party committees' exercise of leadership over economic work does not mean that they take on everything. Instead, they should boldly allow governments and administrative departments to take over economic administrative management and specific organizational work so that they can concentrate efforts on implementation of major economic principles and policies, on the study of economic strategy, on the formulation of important plans and measures, and on ideological and political work. At present, they should pay particular attention to economic reform. The CPC Central Committee's decision on reforming the economic management system in a comprehensive, systematic, resolute and orderly manner is an extremely important guiding ideology for the party to lead the four modernizations and is an important guarantee for achieving the grand objective. All fronts, localities, departments, and units throughout the province should earnestly implement the general principle for the reform defined by the CPC Central Committee and pay close attention to and make a success of the reform in various fields in accordance with their own specific situation. In the course of reform, we should, on the one hand, have a firm determination to surmount obstacles and make a breakthrough and, on the other hand, persistently experiment in doing everything and continuously sum up experiences. Leading cadres at all levels should stand at the fore of reform, vigorously participate in, support, and lead it, and carry on through to the end the economic reform together with the masses.

### 3. Strengthen the Construction of the Socialist Spiritual Civilization and the Socialist Democracy

To establish a highly developed socialist spiritual civilization and highly developed socialist democracy is a strategic principle we should follow in building socialism. The material civilization and the spiritual civilization are built with each as the condition and objective for the other. The various negative factors currently existing in the ideological sphere of our province and our backwardness in science and education fully prove the extreme importance of strengthening the socialist spiritual civilization. If we do not attach importance to the spiritual civilization, modernization will be divorced from the socialist orientation and will go astray. We should also note that the socialist material and spiritual civilization should be ensured and supported by the development of socialist democracy. Therefore, while we are attending to building the material civilization, we should simultaneously attend to building the socialist spiritual civilization and developing democracy.

In line with the demands of effecting a fundamental turn for the better in social conduct and party style set forth at the 12th party congress, our task for strengthening socialist spiritual civilization and socialist democratic construction in the coming 3-5 years is: Through the concerted efforts of the whole party and the people of the whole province, a remarkable improvement in people's political awareness, moral standards, and spiritual state will be achieved, a wide development in new social practices, fine revolutionary tradition, and the spirit of fighting, promising, and sacrificing will be made, a greater improvement in the educational and scientific level of the masses of the people will be made, the disparity in the development of educational, scientific, and cultural undertakings between advanced provinces and municipalities and our province will be reduced, a remarkable improvement in the

people's attitude towards labor, work, and service will be made, more and more people will enter the advanced ranks, the socialist democratic system and life will further be improved, and the social order and public security will reach the level of the peak period since the founding of the PRC. Thus, a new stride will be made in establishing a new relationship among the people, and a good social environment will be created so as to ensure that the masses of the people can conduct modernizations with peace of mind.

In order to strengthen the socialist spiritual civilization and democratic construction, we should attend to the following tasks:

1) Conscientiously conduct the ideological education focusing on communist ideology. The communist ideology is the most scientific and greatest ideology in human society. No revolutionary or construction activities can deviate from the guiding ideology of communism. The "leftist" influence, old ideas, old conventions, old workstyle, the tendency of bourgeois liberalization, vestiges of feudal ideology, various bad customs and habits, and superstitious activities that exist inside and outside the party, depart from the scientifically communist ideology and hamper the progress of socialist modernization. In order to fundamentally eliminate these wrong ideologies and bad habits and customs, and to improve the people's ideological level and moral standards, we must unswervingly conduct the education in communist ideology and accept it as a key to the socialist spiritual civilization.

The vast number of party members, cadres and people should be educated to accept the communist ideology as the guide for their own practices. Through the education of communist ideology, we must conscientiously solve the following few problems: 1. Understand the relations between the lofty ideals of communism and communist movement. Guiding the people to understand every practical step for socialist modernization is a concrete practice of the communist movement and overcomes the wrong ideas of regarding "communism as uncertain and unattainable" and of taking the publicity of communist ideology as "a practice of going beyond the historical period." 2. Understand the relations between communism and patriotism. The people should understand that cherishing the nation is an ideological awareness that every citizen should have. The people will be inspired with a sense of being a master of the state on the basis of responsibility, a sense of national self-pride, and a spirit of being dedicated to the state. 3. Understand the relations between fostering a communist world outlook and doing one's own job well. Educate the people to have a correct attitude towards the value and significance of life, to foster an idea of wholeheartedly serving the people, to solve such problems as for whom we work, labor, serve, and study, and to consciously resist the corrosive influence of the ideology of the exploiting class, such as harming others to benefit oneself, seeking private gain at public expense, loving ease and hating work, "putting money first in everything," and putting profit-making first. 4. Understand the relations between the development of the communist spirit and the implementation of current principles. Guiding the people to clearly understand the principle of enlivening the domestic economy and opening up to the outside world is a correct principle for realizing communism and one that we must adhere to at present. We must also strengthen our consciousness of implementing the current principles of the party. 5. Understand the relations between persisting in communist ideology and conducting all reforms

well. Educate the people to take communism as a guiding ideology, to be brave in destroying the old and establishing the new, to correctly handle the relationship of the interests among the state, departments, localities, units and individuals, to persistently put the interests of the state first and to prevent and overcome the ideological tendency of selfish departmentalism and individualism, which ignore the interests of the whole.

We should launch extensive mass activities to learn from heroes and models. Brought up by the party, many heroes and models have emerged on all fronts. Embodying the communist ideology, ethics, and style, their advanced deeds serve as the most vivid and practical teaching materials in the communist ideological education. Zhang Haidi is one such model. In response to the call of the CPC Central Committee, we should combine the activities to learn from Zhang Haidi with those to learn from Lei Feng and other heroic and model persons, broaden the activities to learn from the advanced and to vie for the advanced in all trades and professions, and enable more and more people to become new communist-minded people who have ideals, moral characters, and education and who abide by discipline.

The activities of "five-stresses, four-beauties, and three-loves" and army-civilian cooperation to build the spiritual civilization should be conducted thoroughly on a long-term basis. The "five-stress, four-beauty and three-love" activities are a very effective measure to build the socialist spiritual civilization and the ideological work for the entire society. We should carry on the activities persistently. Taking ideological education as the key link, we should combine the mass activities to stop dirtiness, disorder, and poor service with the education on lofty ideals, professional ethics, and organizational discipline. We should extensively arouse the masses to establish and improve rules for peasants and the rules for professions, designate civilized units and five-good families, and unfold the "select-the-good and foster-the-advanced" activities to vie for quality service, good order, and a beautiful environment. We should regard army-civilian cooperation in building the spiritual civilization as an important content of the "five-stress, four-beauty and three-love" activities and make concerted efforts to build villages, plants, shops, neighborhoods, and schools where civility reigns. Commissions in charge of the five-stress, four-beauty and three-love activities at the provincial, city, prefectural, and county levels should be set up and the civility and courtesy responsibility system should be instituted and improved at grassroots units so that the "five-stress, four-beauty and three-love" activities will become regular and systematic activities.

It is necessary to conscientiously strengthen and improve ideological and political work. This is an important guarantee for a success in socialist modernization. Through our efforts to stop chaos and restore order since the 3d Plenary Session of the 11th CPC Central Committee, the ideological and political work, generally speaking, has been gradually improved. However, flabbiness still exists rather extensively in our current ideological and political work. In order to change this situation, party committees at all levels should adopt effective measures to intensify ideological and political work. First, we

must enhance our understanding of the function and position of the ideological and political work. It should be noted that successful economic work is conducive to the development of ideological and political work but cannot replace it. Ideological and political work is the lifeline of economic and other work and must never be slackened. Ideological and political work is also a profession and a science and is as important as other professions. Doing ideological and political work is as glorious as doing other work. Second, lax and weak leadership should be overcome. Party organizations at all levels, particularly leading comrades, must have a clear-cut attitude toward right and wrong, uphold principles, dare to attend to and correct anything wrong, and be brave in supporting and commending good people and deeds. They should restore and carry forward the party's fine tradition of attaching importance to ideological and political work of the war years and the early period after the founding of the PRC. Third, it is necessary to carefully study the law governing ideological and political work and its characteristics in the new situation. In the new historical situation, following shift of the focus of the party's work, most units' labor style and the people's thinking have also changed. We should catch up with the changed situation and earnestly sum up the fresh experiences in doing ideological and political work. We should follow the principle of emphasizing giving guidance to closely link ideological and political work with economic and other vocational work, material encouragement with spiritual encouragement and ideological education with solutions to practical problems, so that ideological and political work can permeate the real lives of cadres and the masses. Fourth, we should establish and improve organs to take charge of ideological and political work and build a grand contingent of political workers. The provincial committee has decided to set up an enterprise political work department. Cities and counties that have many industrial, communications, financial, and trading enterprises should also set up similar departments. The province and cities, prefectures and counties should all restore and establish the reporter system and urban and rural grassroots units should restore and establish the propagandist system. In the future, the number of cadres in charge of political work should remain stable. Efforts should also be made to implement the circular of a department concerned of the central authority to assess their professional titles and enable them to enjoy the same treatment in terms of politics and daily life with those with same technical and professional titles. Party committees at all levels should conscientiously strengthen leadership over ideological and political work and place it high in their agenda. They should give full play to the role of government organs, educational departments, and mass organizations and mobilize all cadres and people to carry out ideological and political work so as to open up a new situation in this work.

2) Strive to attend to the construction of various cultural undertakings. Cultural construction is a principal aspect of the socialist spiritual civilization. At present, the development of our province's educational, scientific, public health, and cultural undertakings stands at a lower level in our nation, as calculated in terms of the per capita level. Compared with advanced provinces and municipalities, we still have a long way to go. This results from our long-term neglect of cultural construction in the past. From now on, we must put the cultural construction into a position of great importance, take it as a task of top priority, and try hard to catch up with it.

In order to raise the scientific and educational level of the people of all nationalities, we must attend to education. Party committees and governments at all levels should strive to attend to the educational undertakings in line with the spirit of seizing every minute. At present, on the one hand, our educational undertakings are not well developed enough, and we do not have sufficient talented persons; on the other hand, some college graduates are not assigned to work, because "the jobs do not fit their specialities." On the one hand, our current task for wiping out illiteracy is very heavy, and, on the other hand, new illiterate persons have emerged in some localities. This shows that we must first develop and second reform the educational undertakings. The reform and development of educational undertakings must advance side by side. In line with the plan of the party Central Committee, we must adopt various forms to develop education. First, we must attend to the basic work of training talented persons and enthusiastically develop primary education. Efforts should be made to bring into full play the enthusiasm of the state and the collectives for running schools. By 1985, we should basically universalize primary school education. Various forms should be adopted to widely conduct the mass activity of wiping out illiteracy so as to strive to eliminate illiteracy among young and middle-aged people as soon as possible and to put an end to illiteracy. Second, we must conscientiously conduct secondary educational reform. Rural areas should resolutely implement the guidelines of the circular of the party Central Committee and the State Council on strengthening and reforming rural school education, and rural areas should change a group of regular middle schools into agrotechnical middle schools during the "Sixth Five-Year Plan" period. Urban areas should gradually change about one-third of the regular middle schools into vocational schools during this period. In the course of secondary education reform, we should make a unified plan to solve the problems of teachers and teaching materials. Third, we should give prominence to speeding up the reform and the development of higher education. Firm attention should be paid to formulating a plan for the reform of higher education, and to conducting reform and development simultaneously. Further efforts should be made to develop a group of specialized schools in a planned way, add a group of specialized courses in urgent needs, tap the potentialities of existing colleges and universities, increase the planned enrollment figure and gradually expand the limits of retaining enrollment quotas for specific areas and distributing certain quotas to specific areas. Fourth, we should vigorously develop spare-time education and widely open up avenues for training talented persons. Further efforts should be made to develop radio and TV colleges, evening universities, correspondence universities, and universities for staff members and workers. All localities and all trades and professions should develop various categories of spare-time education. The educational levels of those self-taught persons who passed the state designated examinations should be admitted. Fifth, we should strengthen the construction of the ranks of teachers among all categories of schools, run teachers colleges well and ceaselessly make up the ranks of teachers, institute organs to train teachers, run advanced colleges for teachers, and strive to raise the quality of teachers. The development of educational undertakings should be linked with the popularization of scientific knowledge. We should widely conduct the mass activities of studying and applying scientific knowledge. The province, cities, and counties should institute and perfect scientific and

technical activity centers and rural grassroots units should set up popular science service centers so as to gradually form a setup of publicizing, popularizing, exchanging, and teaching science and technology among the masses of the province, and to spread and apply advanced technology to develop industrial and agricultural production and all other undertakings.

We must conscientiously conduct the cultural construction in other fields. Literature and art should persist in the orientation of serving the people and socialism. We must further implement the principle of letting a hundred flowers blossom and a hundred schools of thought contend. Writers and artists should be encouraged to take the Marxist world outlook as a guiding ideology, plunge into the thick of life, be familiar with life and strive to create more literary and artistic works that reflect the new age, mould new figures, and reveal new-type social relationships. It is necessary to strive to improve the quality of intellectual products. We should vigorously appraise literary and art works and, while continuing to overcome the influence of the "left" mistakes, criticize and correct through education the tendency of commercializing intellectual products, the tendency of being irresponsible for the social consequence of the works and tendency of bourgeois liberalism in the ideological and cultural spheres. Efforts should be made to step up construction of grassroots cultural halls and stations and cultural centers in small towns and to make mass cultural activities universal. Efforts should be made to step up construction of libraries and museums and manage and utilize historical relics well. In health work, we should continue to implement the principle of gearing health work to the needs of the masses, placing emphasis on prevention and combining Chinese traditional medicine with Western medicine, do a good job in reforming public health and medical organs, thoroughly and persistently carry out the patriotic public health campaign centering on eliminating pests and diseases, attend to prevention of endemic and contagious diseases, strengthen public health units at all levels, particularly health centers for women and children, strive to improve service and upgrade medical treatment. In physical culture and sports, we should continue to implement the policy of developing sports activities and improving the people's physique, extensively conduct various forms of mass sports activities, and, while making the activities universal, strive to effect a breakthrough by bringing more sports to the advanced national level. Press and publication units should continuously upgrade propaganda quality. Radio and television stations should exert great efforts to improve means of service so that urban and rural people can listen to and watch good programs. In social science work, emphasis should be placed on the study of the theoretical and practical problems concerning socialist modernization so as to explore an objective law governing the building of Chinese-style socialism.

Great importance should be attached to the education inside and outside the party on the importance of knowledge and intellectuals. We should lead the people to clearly understand the important role of knowledge and intellectuals in the four modernization drive, to clearly understand that intellectuals of our country, like workers and peasants, are a force we rely on in building socialism and to overcome the tendency to discriminate against and despise

intellectuals and the various biases against them. We should further implement the policy concerning intellectuals, properly solve the problems concerning the management and utilization of intellectuals and problems concerning their work and lives and put an end to the situation in which specialized personnel cannot use what they are trained for so that the masses of intellectuals can be devoted to the four modernizations with peace of mind. In the meantime, we should heartily help and guide intellectuals to arm themselves with a communist world outlook and encourage and support them to go to the practice of building socialism, work with workers and peasants, develop their talents and wisdom and make more contributions to the cause of the party and the people.

3) It is necessary to further develop socialist democracy and improve the socialist legal system. Democracy and the legal system are the prerequisite and political guarantee for promoting material and spiritual civilizations. At present, many people lack an adequate understanding of the importance of democracy. Their sense of respect for the legal system is weak and the situation in which laws are not observed or not strictly enforced is quite common. In order to ensure the smooth progress of modernization, we should regard it a basic goal and task to develop a high-degree of socialist democracy, improve the socialist legal system, and conscientiously carry it out.

We should firmly fulfill the basic tasks for developing socialist democracy as set forth at the 12th party congress. Conscientious efforts should be made to ensure that people's congresses at all levels and their Standing Committees perform their function as local organs of power. The buildup of political power at grassroots levels in towns and countryside should be further intensified. In accordance with the principle of separating government administration from commune management, rural areas should gradually establish township political power through experiments. In cities, the work of neighborhood offices should be strengthened. In addition, village committees, neighborhood committees, workers congresses, and other mass organizations of autonomy should also be established and improved. All public security and procuratorial and judicial departments must correctly understand and strictly perform their duties of protecting the people's democracy and exercising dictatorship over the hostile elements. It is necessary to fully respect and safeguard the just freedom and democratic rights of the people. Each and every citizen must exercise his duties for the state and society. While exercising freedom and rights, citizens are not permitted to infringe upon the benefits of the state, society and the collective or the freedom and rights of other people. Personnel of party and government organs at all levels must maintain a proper relationship with the people, be public servants of the people, listen to the voice of the masses, serve them wholeheartedly, and receive supervision from them.

The construction of socialist democracy and the legal system must be closely integrated. The new Constitution adopted by the Fifth Session of the Fifth NPC is a general charter for maintaining the state's stability and for running the country well as well as the fundamental law and basis for the actions of the people of various nationalities. In strengthening the legal system, the

most important thing we must do is to publicize and implement the new Constitution well. We must actively strengthen education on the legal system so as to enable the broad masses of cadres, and the people to observe law and to have courage to struggle against all violations and criminal actions. It is necessary to further formulate and improve various local laws and regulations, especially economic laws, and to persist in managing affairs in accordance with law. The judicial organs at all levels must strictly implement all laws and must see to it that the laws are seriously followed and enforced and that all law violators are strictly punished. The party committees at all levels must strengthen leadership over public security work and the buildup of public security ranks, educate party members--especially leading cadres of the party--to take the lead in observing the Constitution and laws and realistically carry out all activities within the framework of the Constitution and laws so as to prevent all violations of the Constitution and laws.

We must notice that at present, class struggle is no longer the main contradiction of society; however, class struggle still exists within certain limits. All kinds of hostile elements still continue to purposely carry out sabotage activities in economy and other spheres in an effort to overthrow the socialist system. In addition, we must not slacken our vigilance. There are still lots of contradictions among the people which require our efforts to correctly handle them. While intensifying democracy and the legal system, we must pay special attention to improving public security work. We must continue to implement the principle of having the whole party participate in the work and comprehensively tackling problems and must persist in stressing the prevention of crimes and education for misguided persons. We must establish and improve all forms of public security responsibility systems. We must deal quick and heavy blows to a handful of hostile elements, criminals who are guilty of murder, arson, robbery, rape and bombings and those who have seriously disrupted the safety of society in accordance with law and resolutely crack down on counterrevolutionary activities. It is necessary to unswervingly carry through to the end the current struggle against serious criminal activities in the economic sphere. In regard to the problems of the people, we must give more guidance and settle their problems through persuasion and education. We must energetically intensify civil dispute mediation work, give full play to the role of grassroots public security and mediation groups and strive to nip disputes in the bud and prevent contradictions from becoming more acute. In short, we must properly distinguish and handle the contradictions of two different natures, and through comprehensive tackling of problems and the implementation of various public security measures, ensure a stable and good order in towns and cities so as to achieve a fundamental turn for the better in public security.

#### 4. Strengthen Party Building and Give Full Play to the Role of Party Organizations as a Core and Leadership in the Modernization Drive

The 12th National Party Congress set forth that in order to fulfill our party's great historical mission, efforts must be made to adhere to and improve the party leadership, strengthen party building and conduct stage by stage and

group by group and overall consolidation in party style and party organizations. This is a very important strategic policy decision which is absolutely in conformity with the requirements of the party's ruling status and is in line with the practical situation of our province's party organizations. The key to realizing the combat objective for social and economic development, doing a good job in building spiritual and material civilization and creating a new situation in the work of Shandong lies in attending to party building and giving full play to the role of party organizations as a core and a leader.

After several years of consolidation, party organizations in our province have been greatly improved. The overwhelming majority of the 170,000 grassroots party organizations and the 3.15 million party members throughout the province are good to comparatively good. However, because the pernicious influence of the 10-year internal disorder has not been completely eliminated, because of the inroads and erosion by the decadent ideology of capitalism and other exploiting classes and because we have not done enough in strengthening party building, impurities in ideology, workstyle and organization still exist within the party and party style has not been fundamentally improved. Our party committees at all levels should overcome the tendency of neglecting party building and paying no attention to improving the party, truly regard the rectification of the party's ideology and workstyle and the strengthening of party building as an important item of their agenda and earnestly attend to it.

Party consolidation should be carried out in a planned and step-by-step manner in accordance with the plans of the CPC Central Committee. Experiments should be first made at selected units and experiences gained so as to blaze a new road for the comprehensive party consolidation. This party consolidation should be conducted from higher levels first down to lower levels with leading organs and leading cadres taking the lead. Organs at the provincial, city, prefectural and county levels should be consolidated first and then they should lead the consolidation at lower levels and grassroots organizations. The focus of the consolidation should be placed on party-member cadres. Efforts should be made to guard against factionalist interference and never allow bad people to make trouble for good people. Party consolidation should be carried out in coordination with the reform in various fields so as to promote industrial and agricultural production and other undertakings. Through party consolidation, we should solve the problems of ideological, workstyle and organizational impurities within the party, raise party members' awareness in party spirit, achieve a fundamental turn for the better in party style, enhance the party's combat strength and enable the overwhelming majority of party members to become as qualified as stipulated in the new party Constitution, enable grassroots party organizations to become fighting bastions which forge close ties with the masses and enable leading bodies at all levels to become a powerful core of the four modernizations.

In line with the demands set forth at the 12th party congress and the actual situation in our province, we should lay emphasis on the following tasks for party building in the next few years.

1) We should pay close attention to ideological education with the new party Constitution as the major content and raise party members' awareness in party spirit with this fundamental method. The current ideological impurity among some party members is largely because of low awareness. This is a problem of education. Experiences in the party consolidation experiments prove that with intensified study of and ideological education on the new party Constitution, most of these party members are able to raise their awareness in party spirit and become qualified party members. Therefore, when carrying out party building and party consolidation, we should place the ideological education with the new party Constitution as the major content above everything else and have in mind the education and improvement of the majority of party members. All party organizations should organize party members to attend party classes, study classes, short-term rotational training classes and regular organizational activities to conscientiously study the new party Constitution, the documents of the 12th party congress and other important documents, check the actual situation against the Constitution and the documents and hold discussions. Concentrated education should be combined with regular education. Prior to party consolidation, education should serve as preparation for the comprehensive party consolidation. In the course of party consolidation, education should be regarded as a key link and carried out in a concentrated manner. After party consolidation, education should be systemized and be conducted on a regular basis in coordination with the central tasks for each period and with party members' ideological situation. Through regular concentrated education and frequent ideological education, we should enable the masses of party members to clarify the nature, position and function of the party and its ultimate goal and current tasks and policies and to know the ways to be qualified party members and cadres and should effectively resolve four issues. First, have firm communist beliefs and foster the idea of serving the people wholeheartedly. We should encourage party members to correctly handle the relationship between personal interests and the interests of the party and the people, to foster lofty communist goals, to serve the people wholeheartedly, to be prepared at any time to sacrifice for the cause of the party and the people and to never plan for themselves first when anything happens, still less seek selfish interests at the expense of others. Second, maintain political unity with the party Central Committee. We should guide party members to clearly understand the harmfulness of "leftist" mistakes and the correctness and great might of the party's line, principles, and policies set forth at the 3d plenum of the 11th Party Central Committee, to have a correct ideological awareness, to persist in the four fundamental principles, to strengthen the awareness of implementing the resolutions of the 12th party congress and the directives of the party Central Committee, and to be brave in waging struggle against wrong ideology and words and deeds in violation of the line, principles, and policies of the party Central Committee. Third, bring into full play the exemplary vanguard role of the communists. Party members should understand that communist party members are the vanguard fighters of the working class. Party members should perform their role as exemplary vanguards in the practice of modernization. Never should we demote ourselves to non-party people or even backward elements. Fourth, strengthen party spirit, eliminate factionalism, and overcome the state of sectarianism. We should attach importance to solving this problem. The units with factionalists should conduct criticism and self-criticism among party

members in line with the rules of the new party Constitution and "criterion" so as to enable the comrades with factionalism to have a correct understanding and to correct their mistakes. Those party members with serious factionalism ideas who refuse to mend their ways despite repeated admonition cannot be placed within the party.

2) Consolidate and purify party organizations and raise the combat strength of the party. Closely in line with the demands of the party's task in the new period, we should achieve the consolidation and construction of party organizations. First, we should solve the problems of irrational Constitution and distribution of party members. We should adopt positive and prudent principles to recruit new party members among intellectuals, forefront production line, and collectively owned enterprises and units. Second, we should solve the problem, of some unqualified party members. We should link the consolidation of party organizations with the ideological education to raise political level of qualified and basically qualified party members, to bring unqualified party members up to the qualified ones, and to persuade the small number of party members who remain unqualified, though educated, and the party members, who seriously violate the law and discipline, to withdraw from the party and to clear them out of the party. Third, solve the problem of the "five types of persons" who have sneaked into leading bodies. As for persons who rose to prominence by rebellion, following Lin Biao, Jiang Qing, and the counterrevolutionary clique, who are serious factionalists, who have indulged in beating, smashing, and looting, who oppose the line followed by the party Central Committee since its Third Plenary Session, or who have seriously violated the law and discipline in the economic and other fields, we must remove with a firm hand those among them who are still in leading bodies. Party organizations at all levels should take charge of this matter. No matter which organizations and factions they belong to, they should be removed when discovered. Fourth, solve the problem in which some party organizations are paralyzed or semi-paralyzed. In line with the new party Constitution, two provisional regulations of the party Central Committee on industrial and financial grassroots party organizational work and the regulation (draft for trial use) of the organizational department of the party Central Committee on rural party branch work, we should firmly attend to consolidating and perfecting grassroots party organizations and bringing into full play their role as a fighting force. And fifth, solve the problem of the imperfection of the regular activities of organizations. We should institute and perfect the rule of leading bodies for holding meetings of democratic life. Party branches should "hold three meetings and give one class." Party members should divide the work to maintain links with the masses, appraise, and select advanced party branches and model party members and pay attention to summing up the experience in conducting the party's activities after the popularization and implementation of the responsibility system. Through consolidation and construction, we should conscientiously improve the conditions of party organizations, strengthen organizations' sense of discipline, and enhance the combat force of the party.

3) Leading bodies at all levels and the cadres contingent should be built according to the demands on cadres for being "more revolutionary, younger, better educated, and more professionally competent." To make the cadres

contingent, particularly leading bodies, more revolutionary, younger, better educated, and more professionally competent is an important link in strengthening party building and is also a core task in organizational reform. In line with the plans of the CPC Central Committee, the reform of the organs at the provincial level in our province is still continuing and the reform of prefectural and city organs is just beginning. In the course of the organizational reform, we should particularly solve the problems of two many posts in leading bodies, of the average age of leading bodies being rather old and of the lack of knowledge and the spirit of creativity. In accordance with the demands to bring "more revolutionary, younger, better educated, and more professionally competent," we should promote to leading bodies a great number of fine young and middle-aged cadres in the prime of life who have both political integrity and ability and who are capable of creating a new situation, especially those with an education of senior high school or higher, so as to do a good job in promoting the cooperation between new and old cadres and replacing the old with the new. Efforts should be made to get rid of the outmoded ideas of stressing seniority and demanding perfection and correct the erroneous tendency of despising knowledge and discriminating against intellectuals. We should ensure political soundness and resolutely prevent the "five types of people" from sneaking into leading bodies. New leading bodies should have a new workstyle, be brave in creating and opening up a new situation in their work as quickly as possible. New and old cadres should show concern for, respect for, and support of each other and achieve unity among "the entire membership" of leading bodies. We should be determined to overcome "five excessives," break away from red tape, stress the practice of going deep into reality of conduct investigations and study, do more solid work, pay attention to real effect, strictly avoid empty talk and guard against subjective one-sidedness and blindness. We should make some rules for our life-style and earnestly follow them. We should strengthen the work of evaluating and managing cadres, deal with their problems comprehensively on the basis of their history and correctly use them. We should resolutely support comrades who adhere to principles, work vigorously, dare to attend to and solve problems, and are able to create a new situation in their work; criticize and educate those who find faults with others instead of doing their work, stir things up and envy competent persons; and strictly deal with those who retaliate against others for previous grudges and who frame good people.

Making proper arrangements for veteran retreated cadres is an important task for all party organizations. Shandong has fairly many veteran cadres, numbering more than 210,000. Veteran comrades who have retreated from the frontline made important contributions to the cause of the party and the people in the party. In the reorganizational reform, they again made important new contributions by resigning on their own accord and recommending people of abilities. Comrades like Gao Qiyun, Li Lin, Li Yuang, Wang Zhe, Feng Ping, Bai Yanbo, Jiang Guodong, and a great number of former leading comrades of departments, committees, sections, and bureau and prefectures and cities have set very good examples in this work for the masses of cadres to follow. They certainly deserve the respect and praise of party organizations, cadres, and the people

throughout the province. I suggest that this congress salute these veteran comrades! All our party organizations should show concern for and respect veteran comrades and take good care of them. Organs in charge of the work concerning veteran cadres should be established and improved so that there are specialized personnel to take charge of retreated veteran comrades, guarantee the treatment in political life and daily life they are entitled to enjoy and create comparatively better conditions for their daily life. We should attach importance to and give play to the role of veteran cadres in the "revolutionary new period" and organize them to do the work they are capable of. Veteran comrades who join the advisory commissions or serve as advisers should be good assistants and advisers to party committees and governments, do a good job in selecting successors, support new comrades to work boldly and pass on their experiences, give help and set examples.

Rotational training of cadres is a strategic measure to upgrade the political and professional quality of the cadres contingent. The province and all cities, prefectures, and counties should gradually establish a system of regular training of cadres and adopt various measures to train cadres of different trades and at different levels, especially backbone leading cadres, on basic Marxist theories, and on general, vocational, managerial, scientific, and technological knowledge. Party schools across the province should gradually shift their major task from short-term rotational training of cadres to regular training of cadres. Cadres schools of various types, colleges, and universities and related secondary vocational and technical schools should also shoulder the responsibility for training in-service cadres.

4) Adhere to the democratic centralism of the party and further regularize the inner-party political life. In the past few years, our province has made remarkable improvement in the inner-party political life. Undemocratic practices and patriarchal ways have still not been eradicated in many organizations and serious cases of decentralism and liberalism exist. All this hinders the implementation of the party's line, principles and policies, and weakens its fighting capacity. In order to enhance the construction of the party, we must pay full attention to perfecting the democratic centralism of the party, enlivening the democratic life of the party, and strive to create the political situation in which centralism and democracy, discipline and liberalization, and unified will and self-happiness, livelihood, and vitality go hand in hand. Members of party committees and especially major responsible comrades should have a democratic work style, be glad to have their errors pointed out, be good at listening to different opinions, and welcome criticism made by lower levels, party members, and the masses. Party committees should carry out the system of combining collective leadership with division of labor. All great issues should be decided through the collective discussions of party committees and cannot be resolved by individuals or a small group of people. After resolution, all issues should be carried out by division of labor. Party organizations at all levels should respect the democratic rights of party members and bring into play

the role of party members as supervisors over leading cadres. At the same time, we should strengthen the party's discipline and persistently carry out the practice of "individual party members submitting to party organizations, the minority submitting to the majority, lower-level organizations submitting to higher organizations, and all party organizations and all party members submitting to the National Party Congress and the party Central Committee." All party members and especially leading cadres should take the weapon of criticism and self-criticism bravely in examining their own shortcomings and mistakes as well as in criticizing others' shortcomings and mistakes, and persistently overcome the vulgar ways of saying nothing to people to their faces but gossiping about them behind their backs, not criticizing or struggling against shortcomings, mistakes, and ill practices, and being a benign and uncontentious person who is indifferent to matters of principle. Party comrades and party committees members should understand and accommodate each other and not allow themselves to be swayed by personal feelings. In short, we must build party organizations into the collectives with vitality, fighting capacity, and strength.

5) Conscientiously correct ill practices and effect a fundamental turn for the better in party style as soon as possible. We must understand that the work style of the party in power is a matter of vital importance. The key to effecting a fundamental turn for the better in party style, folk customs, and social order lies in effecting a fundamental turn for the better in party style. In order to correct party style, we should, on the one hand, carry forth the fine traditional practices of the party and cultivate and foster a new workstyle, on the other hand, conscientiously implement "criterion" and resolutely correct all ill practices in the party.

At present, we should resolutely and gradually stop several ill practices, that the masses oppose most and that may cause greatest damages. First, stop the ill practice of regarding one's own responsible unit as "a territory" in which one can dominate willfully, taking the heavy mission and right entrusted by the party and the people as an advantage to act like an overlord and refusing to implement the party's line, principles, policies, rules, and regulations. Second, stop the ill practice of taking advantage of functions and rights to build private houses, distribute good houses and occupy excessive houses not in accordance with discipline and illegally "transferring one's children and relatives from the agricultural population to non-agricultural population," and the ill practices in entering schools, employment, capital allocation, promotion of cadres, rank promotion, joining the party, and personnel transference. Third, stop the ill practice of using public funds and property for personal gain, to give presents, eat and drink extravagantly, spend freely, and waste, giving and accepting bribes, and being morally degenerated. And fourth, stop the ill bureaucratic practice of disregarding the zeal and woe of the people, taking no responsibility for work and neglecting one's duty, thus creating heavy losses to the state and the collectives.

Though these ill practices are the matters involving a small number of people, they are full of corrosiveness and may cause bad effects. We must never neglect them and take effective measures to resolutely stop them. We should resolutely

handle serious and bad cases. While examining and correcting the ill practices in the party, we should vigorously commend advanced party branches, model party members, fine people, and fine deeds, be strict and fair in meting out rewards and punishments, support the fair, drive out the evil, and strengthen the awareness of resisting ill practices among the broad masses of party members and cadres.

The key to correcting the unhealthy trends within the party lies in leadership. Leading organs and leading cadres at all levels should set examples for the lower levels to follow and must never seek any selfish interests or privileges beyond the limits stipulated by systems and policies. Not long ago the Standing Committee of the provincial committee formulated eight regulations for improving workstyle. We are determined to implement the regulations and hope you will supervise. In rectifying party style, we should match deeds with words, start from ourselves and start immediately and should not leave problems unsolved until comprehensive party consolidation is launched. In correcting unhealthy trends and law and discipline violations, leaders should take the lead, efforts should be concentrated on checking leading persons and each level should attend to the work of its immediate lower level down to the grassroots. Efforts should be made to strengthen discipline inspection work and discipline inspection organs, support these organs to boldly investigate and handle discipline violation cases and wage resolute struggles against the erroneous deeds of supporting and conniving unhealthy trends, pleading for discipline violators and shielding bad people and bad deeds.

6) It is necessary to strengthen party work among the masses and maintain close ties with the masses. In order to create a new situation in all fields of socialist modernization, our party organizations at all levels should attach great importance to propaganda among the masses, and the organization of them, be concerned about their weal and woe, heed their opinions, properly handle their letters and visits and fully arouse the enthusiasm of the masses of workers, peasants and intellectuals. Mass organizations and groups, such as trade unions, CYL, the women's federation, the militia, the scientific and technological association, the Federation of Literary and Art Circles, the Federation of Social Sciences and the Federation of Returned Overseas Chinese, are the bond linking the party and the masses. Party committees at all levels should strengthen leadership over these organizations and groups and vigorously support their work. Over the past few years, many veteran workers have returned and the number of young workers has greatly increased. This has resulted in a great change in the structure of the contingent of staff members and workers. In view of this new situation, trade unions should energetically unfold their work, safeguard the legal rights and interests of staff members and workers and perform their important functions of conducting ideological education, training staff members and workers, improving enterprise management, launching labor emulation drives and upgrading the living standards of workers. At present, the province has 3.59 million CYL members and 17.72 million young people. They are new forces of our various undertakings. To successfully do the work concerning CYL members and young people is of great significance in building material civilization and the socialist spiritual civilization and in guaranteeing supply of successors to the revolutionary cause. Leadership over CYL should be strengthened. CYL consolidation should also be carried out in

the course of party consolidation so that CYL organizations will truly become schools where young people study communism in the course of practice and will play still better their role as the assistants of the party and as reserve forces. Women are an important force in the modernization drive. Efforts must be made to strengthen women's work, safeguard women's legal rights and interests, show concern for their special interests, attach importance to training and promoting women cadres and give full play to the role of women's federations in protecting and educating women and children. As an outpost of coastal defense, Shandong occupies a very important strategic position. We should strengthen the army-government and army-civilian unity, support the army and give preferential treatment to families of revolutionary armymen and martyrs, do a good job in army-civilian joint defense, support army building, put the people's militia work on a solid basis organizationally, politically and militarily, and give full play to the role of militia organizations in building and safeguarding the four modernizations.

In the new historical period, the party's united front work is still a great magic weapon for revolution and construction. We should adhere to the principle of "long-term coexistence and mutual supervision" and "showing utter devotion to and sharing weal and woe" with various democratic parties and cooperate and work together in a better way with democratic parties, nonparty personages and all patriotic people. C'PCC committees at the provincial, city and county levels should fully perform their functions of political consultation and democratic supervision and enthusiastically do their work toward nationalities, religions, Taiwan and overseas Chinese. Continuous efforts should be made to eliminate the "left" influence, step up implementation of various united front work policies, consolidate and strengthen the broadest patriotic united front and unite with all forces that can be united to serve socialist modernization and contribute to the great cause of the reunification of the motherland.

Comrades, the task ahead of us is glorious and yet arduous. In order to fulfill the task, entrusted by history, we must launch a restudy activity. Study is a duty which communist party members must make efforts to carry out, and is the first requirement to fight for our great undertakings. As early as the period shortly before the founding of the PRC, Comrade Mao Zedong called on the whole party to launch a restudy activity. Practice shows: Study activity achieved success and ensured that our party smoothly grasped the state power after the revolutionary war. This March, at the meeting marking the 100th anniversary of the death of Marx, Comrade Hu Yaobang made a report to sum up the historical experience in this field and called on the whole party to launch a restudy activity. This is a great long-term strategic measure for ensuring the smooth progress of modernizations. We must enthusiastically hail the call of the party Central Committee and attach importance to conducting the restudy activity. We should conscientiously study Marxism-Leninism-Mao Zedong Thought, "the important selected documents since the third plenary session," "the Selected Works of Deng Xiaoping," "the Selected Manuscripts of Chen Yun," and the party's line, principles and policies. We should resolutely implement the guidelines of the circular of the CPC Central Committee on studying "the Selected

Works of Deng Xiaoping," take the study of Comrade Deng Xiaoping's works as an important ideological construction to guide our current tasks, simultaneously work hard to study culture and science and strive to master modern science and technology, and operation and management knowledge. We should study books, learn from specialists, experts and the masses of the people, be determined to learn what we do not know originally, gradually turn ourselves from nonprofessional to professional and successfully bear the glorious task of the four modernizations.

Comrades, party organizations of our Shandong Province have a glorious revolutionary tradition, and have made important contributions under all revolutionary periods. Under the new historical period, our party organizations should make greater contributions. Under the guidance of the guidelines of the 12th party congress, we should closely be united with the party Central Committee, lead the people of the whole province, work arduously, and fight tenaciously for creating a new situation in Shandong Province's socialist modernization.

CSO: 4006/752

## ECONOMIC MANAGEMENT

### SHANGHAI LAUNCHES MANAGEMENT CONSULTING SERVICE

Shanghai JIEFANG RIBAO in Chinese 19 Apr 83 p 1

[Report by reporter Yang Ronggen [2799 2837 2704]: "Actively Launch Enterprise Management Consulting Service"]

[Text] In coordination with the all-round rectification of enterprises in the municipality, the Shanghai Association of Enterprise Management learned from the industrially advanced countries some enterprise diagnostic methods on how to guide medium-sized and small enterprises in improvement of business management and actively launched an enterprise management consulting service, thus enabling some factories to raise their economic results.

Enterprise management consulting service is a skill which is newly developed in the industrialized countries and is an effective method for developing production intensively. This kind of consulting service can, under the condition of not increasing investment, raise product quality, tap the existing potentials of an enterprise and enable the enterprise to obtain better economic results through improving business management. In May of last year, the Shanghai Association of Enterprise Management began to launch pilot projects in order to probe the methods and steps of launching consulting work in this municipality. They dispatched concerned specialists and formed consulting service groups, and, in integration with enterprise rectification, carried out consulting service at the first worker-peasant joint enterprise in this municipality—the Xinjing Jointly Operated Factory of a certain No 1 Steel File Plant. This jointly operated factory did poorly in fulfilling production for the first half of last year. The consulting group, the company's group to stay at a grassroot unit and the concerned management personnel of the factory carried out investigations and studied together and assisted the factory in implementing improvement measures in eight separate aspects. In the 5 months after consulting was offered, compared to the 7 months before that, output increased 40 percent, output value increased 44 percent and profit increased 87 percent on the average each month. The projected target of the consulting report was basically reached.

The consulting service group also carried out a feasibility study on the future production development of heavy-duty vehicles of the Shanghai Heavy-Duty Vehicle Factory, enabled that factory to recognize the trend of the market in the near future when supply of heavy-duty vehicles made in China will not meet

demand, and made a policy decision on vigorously developing heavy-duty vehicle production. The group also offered a special topic consulting service on raising product quality for the No 1 branch of the Shanghai Athletic Shoes General Factory, thereby scoring economic results. With the help of the Association of Enterprise Management, the Shanghai Tool and Equipment Company organized its own consulting team and, in integration with enterprise rectification, carried out consulting service work for the Shanghai Band Saw Factory and the Shanghai Diamond Tool Factory.

This year, the Municipal Association of Enterprise Management has decided to readjust and strengthen its power to establish a liaison net of consulting personnel, gradually expand the scope of consulting service, and give priority assistance to several companies in training consulting service personnel and establishing consulting service teams.

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CSO: 4006/542

## FINANCE AND BANKING

### SHANGHAI'S 'PAYMENT OF TAXES FOR PAYMENT OF PROFITS' REGULATIONS

Shanghai JIEFANG RIBAO in Chinese 15 Jun 83 p 1

[Article: "Shanghai Municipal Government Approves Supplementary Regulations for Substituting Payment of Taxes for Payment of Profits"]

[Text] What specific action has Shanghai taken in implementing the "Regulation for Substituting the Payment of Taxes for the Payment of Profits by State Enterprises on a Trial Basis" issued by the Ministry of Finance after its approval by the State Council? After having engaged in investigation and research, listening to a wide range of opinions and taking into consideration the actual circumstances in the city, the municipal financial and taxation departments have formulated several supplementary regulations regarding the payment of taxes for the payment of profits by the state enterprises in the city.

The main supplementary regulations are as follows:

#### 1. Limits Applying to the Substitution of the Payment of Taxes for the Payment of Profits

All profitmaking state enterprises, including industrial, commercial, educational, construction, materials, supply and marketing, utilities and communication businesses, are to begin the payment of taxes instead of profits as of 1 January 1983. The substitution of the payment of taxes for the payment of profits does not for the time being apply to war production, farming and animal husbandry, aquatic products, reform-through-labor, foreign trade and the food enterprises, enterprises under the aviation industry, machine and electrical companies, light industry companies, enterprises under the instruments and electrical companies, the scientific equipment companies and the local postal and telecommunication enterprises. In addition to the limits listed above, enterprises under the Shanghai Metallurgical Industries Bureau and the Shanghai Textile Industries Bureau, which have been permitted by the State Economic Commission and the Ministry of Finance to retain their profits, are temporarily exempted from the substitution of the payment of taxes for the payment of profits for the present year in view of the fact that the original measure is due to expire in 1983. However, when the measure for the payment of taxes instead of profits comes into force in 1984, taxes will be computed according to the 1982 data. Furthermore, the Shanghai Light Industrial

Machinery Co, the Shanghai Diesel Engine Factory, the Shanghai Pengpu Machinery Factory and enterprises under the counties which have been approved by the Ministry of Finance and which have served as experimental units for the payment of taxes instead of profits are to continue to abide by the original measure on a trial basis.

## 2. Standard for Classifying Small State Enterprises

The standard for classifying small state industrial enterprises (including industries operated by commercial enterprises) applies, on the basis of the data at the end of 1982, to the industrial enterprises capable of independent accounting with fixed assets not exceeding 3 million yuan and annual profits not exceeding 300,000 yuan; commercial retail enterprises employing not more than 30 workers with single [independent] stores as their operating units whose annual profits do not exceed 50,000 yuan. All independent stores which operate as small-scale enterprises should change their original accounting status into that of independent accounting units. Independent accounting units should meet the four following requirements: 1) those which have registered with the industrial and commercial departments; 2) those which have opened bank accounts; 3) enterprises having their own funds; 4) enterprises having regular accounting and auditing personnel capable of drawing up accurate accounting reports and reports of profits and losses.

All materials supply and marketing enterprises, including the supply and marketing enterprises, management departments, operations departments, retail departments and commercial wholesale enterprises under the materials supply and marketing enterprises, including the various responsible bureaus (companies), are not to be classified as small-scale enterprises.

## 3. Measures for the Payment of Profits After the Payment of Taxes

As a rule, the profit that remains after the payment of income taxes by the large and medium state enterprises, aside from the stipulated amounts to be retained by the enterprises according to regulations, is to be determined by the concerned departments with the approval of the financial departments and paid to the state in the form of readjusted taxes. As regards the profits that remain after the payment of taxes by the concerned enterprises, the financial departments, aside from the payment of a fixed ratio by the enterprises under the State Supplies Bureau system, are to adopt the measure for levying readjusted taxes. The units responsible for the rendering of accounts are generally the concerned bureaus or companies. The readjusted taxes to be paid by the various responsible bureaus or companies are to be determined by the Municipal Finance Bureau and approved by the Ministry of Finance and are to remain unchanged for a period of 3 years.

On the basis of the actual amount of profits, the small-scale state enterprises are to pay income taxes according to the progressive rate applying to the eighth class of above-the-quota taxes. After the payment of taxes, the enterprises are to be responsible for their profits and losses and the state is not to make further financial allocations. Enterprises with large profits

after the payment of taxes are to pay to the state a fixed additional amount of profits. Specific measures are to be separately formulated.

#### 4. The Level of Profit To Be Retained by the Enterprises

In the enforcement of the measure calling for the payment of taxes instead of profits, it is necessary not only to avoid scrimping on the financial receipts of the state but also on the profits that should properly go to the enterprises. Adjustments should be made if an excessive or unreasonable amount of profit is retained by enterprises. According to the actual circumstances prevailing in the city, the industrial and commercial enterprises have basically calculated the amount of retained profits in an accurate manner for 1982 and there were few businesses or enterprises whose excessive retained profits need to be pared down.

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CSO: 4006/634

Since the liberation, through investment in capital construction, our province has provided about 7 billion yuan of fixed assets for the various departments of the national economy and has established a fine material and technological foundation for the four modernizations in Fujian. In the past, due to given geographical factors, the state had made relatively small investment in capital construction in our province. Now, it is implementing special policies and flexible measures. People want to launch a few more projects and develop faster. This wish is a good one. However, how large the scale of investment in capital construction can be is not determined by our subjective wish but by objective realistic factors. If the scale of investment in capital construction does not correspond with the labor power, production and consumer materials which the society can provide, then it will be harmful to normal production and consumption.

In light of the present situation in Fujian, is the scale of investment in capital construction too large or too small? We feel that, in 1978, the scale of capital construction throughout the country was too large and should have been cut down, whereas the scale of capital construction in our province was relatively small, and should have been somewhat expanded appropriately in the readjustment. But in the past 1 to 2 years, the investment in capital construction has increased time after time, and the scale is a bit too large. This is mainly manifested in the following:

First, the speed of increase of the investment in fixed assets does not correspond to the speed of the increase of the national income. In the last few years, the speed of increase of the investment in capital construction has far surpassed the speed of increase of the total value of industrial and agricultural output and national income, and the rate of accumulation has increased.

Second, the speed of increase of the investment in fixed assets has surpassed the speed of increase in construction materials. In the last few years, because of the slight increase in the "three kinds of materials" and even reduction in some, and the increase of investment in fixed assets at too fast a pace, the gap in the "three materials" has been widened.

Third, the speed of increase of the amount of investment in fixed assets does not correspond to the speed of increase of financial revenue. In the last few years, our province's financial revenue not only has not increased but has decreased. The investment in capital construction has in reality surpassed the capacity of our financial power.

Fourth, the increase of investment in fixed assets does not correspond to the supply of consumer materials, thereby squeezing out simple reproduction and restricting the people's livelihood. At present, for every 100 million yuan of investment in capital construction, at least 40 million yuan are thrown into the open market, and as much as 50 million yuan are used in nonproductive construction, while the rest is used on the market for purchasing materials of livelihood and other consumer items. This has intensified the difference between the volume of commodity supply and purchasing power in society.

How can we effectively control the scale of capital construction? First of all, we must strengthen the centralized and unified management of investment in capital construction. We must channel the funds of all kinds of investment into the orbit of unified planning and submit them to supervision and inspection by concerned departments. Furthermore, we must strive to raise the overall economic results of the investment in capital construction. We must abide by the principle of considering the economic results when deciding on a project, while designing, when taking over land for use and when carrying out engineering work. Lastly, we must act strictly in accordance with the procedures for capital construction. Projects that are under construction must be examined according to the "five regulations" and we must halt or slow down construction if they do not meet the regulations. No newly launched projects which do not meet the requirements of the "five regulations," must be included in the plan. As for those construction projects that are outside the plan, besides adopting administrative measures, we must also resort to economic methods to restrict them. We must effectively control capital construction projects and the amount of investment in them.

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CSO: 4006/542

FINANCE AND BANKING

CONSOLIDATION OF FINANCE WORK IN RURAL AREAS DISCUSSED

Beijing CAIWU YU KUALJI [FINANCE AND ACCOUNTING] in Chinese No 6, 20 Jun 83  
pp 27-30

[Article by Bao Weihe [0545 4850 0735]: "Experience in Consolidating Financial Work by Rural Communes and Brigades"]

[Text] The Central Committee and the State Council attach great importance to consolidating commune and brigade financial work. Statistics from the end of 1982 indicate that 2.4 million production teams, or 40 percent of China's total of 6 million rural production teams, have already finished their consolidation work, while 1.8 million or 30 percent are in the process of performing it, and 30 percent have not yet gotten it under way. The areas in which it has proceeded rapidly are now engaged in putting in the finishing touches, and some are conducting follow-up checks and correcting oversights. The following excellent results have been obtained through consolidation.

A. Assets have been clarified. Fixed assets and stocks have been inventoried, profits have been put on the books and the reasons for losses have been investigated. They have been handled by accounting methods, prices have been set on all property distributed to the households at value, price recovery periods have been set, problems of long-standing imbalances in accounting have been solved, and accounting entries have been brought into agreement with actual holdings. As a result of financial consolidation, Jiangsu Province has recovered 237,000 agricultural implements and objects with a value of 8.295 million yuan.

B. Debts receivable and payable have been clarified. As a result of consolidation of financial work, debts receivable have been recovered and debts payable have been repaid; the accounts for debts that are temporarily unrecoverable or whose status is unclear have been straightened out, and repayment plans have been set up. According to statistics for 19 provinces and municipalities, including Beijing, Tianjin, Shanghai, Liaoning, Jilin, Heilongjiang, Jiangsu and Zhejiang, 660 million yuan in debts owned by other units have been recovered; accounting for 18.6 percent of total debts outstanding. Commune and brigade enterprises in Jiangsu recovered 330 million yuan in debts owed by other units, equivalent to 43.8 percent of the total debts owed to the units in which finances were being put in order. The number of households that had overspent was decreased by 26 percent in Jiangxi Province, and the amount of overspending was decreased by 22 percent.

C. As a result of the financial consolidation, extravagance, waste, entertaining, gift-giving and lavish living have been somewhat decreased, expenditures have been decreased, and the peasants have reaped material benefits. In Heilongjiang Province, 82 percent of the production teams have established expense quotas and a financial performance contracting system; in 1981 the increase in the production teams' expenses was 90 million yuan smaller than the previous year, and this saving made it possible to increase the average income of commune members in the province by 5 yuan.

D. Some cases of graft and embezzlement have been discovered and dealt with, some cadres have been rescued from corruption, and the ties between cadres and masses have been made closer. As a result of financial consolidation, honest and incorruptible cadres have received further support from the commune members, and cadres who have made errors not only have made restitution, but in addition have received education on obedience to discipline and law and adherence to the socialist road, which has improved and stabilized the production responsibility system and consolidated the results of the shakeup.

In all cases where the consolidation work was done well, the units had the following experiences.

#### I. Conscientious study of the relevant Central Committee and State Council Documents, Improvement of the Cadres' and Masses' Ideological Understanding, and Elimination of the Fear of Difficulty

The financial consolidation affects many cadres and departments, as well as many other concerned parties, so that once the consolidation work is begun, three kinds of fear are usually encountered: fear that it will harm the cadres so that they will not act or will repeat their past errors, fear that production will be harmed and that the commune and brigade enterprises will be wrecked, and fear that since the problems are numerous and difficult, they will be getting into a quagmire. The localities had three types of experience in dealing with these misgivings and fears.

First, they repeatedly studied the Central Committee and State Council documents, mastered their spirit and essence, and made clear their objectives and requirements. State Council Document No 10 clearly specified: "The consolidation of financial work is intended to clarify assets, overcome confusion, put the system in good working order, improve management, plug loopholes, increase receipts and decrease expenditures; and its main objective is to improve economic results," and "We must focus on improving the cadres' management level and increasing the commune members' confidence in running an effective collective economy as masters of the house." As a result of study of the documents, the cadres and the masses realized that the purpose of the consolidation was to protect the masses' interests, to cherish and protect the basic-level cadres, and not to "get" anyone. This eliminated the masses' misgivings and increased the confidence of the leadership, and the consolidation of financial work quickly got into full swing.

Second, they realistically laid out the problems and made clear the importance of consolidating financial work. The localities used numerous instances of

the confusion of commune and brigade financial affairs, serious losses and waste, misuse of funds, misappropriation of property, and low economic results, to illustrate that the consolidation could not wait and that action must be taken which increased the cadres' resolve and confidence regarding the consolidation.

Third, the experience of spot experiments made party committees and governments at all levels aware that consolidation of financial work and improvement of the production responsibility system were both comprehensive activities and that if they were done well all undertakings would go smoothly, while if they were not, consolidation of the collective economy would be affected, the implementation of the policy of "taking account of the interests of all three parties" would be harmed, and the improvement and stabilization of the production responsibility system would be hindered. This increased the conscientiousness of the leadership at all levels regarding the consolidation of finance work.

## II. Unified Leadership by the Party Committees, Close Coordination of All Departments for the "Three Implementations"

In the process of consolidating commune and brigade finances, the localities made an energetic effort in the "three consolidations." The first of these was leadership consolidation. Senior officials at the prefecture, city, county and brigade level personally involved themselves in this work. The second was group consolidation. The prefectures, cities, counties and communes all established special organizations to carry out specific arrangements, surveys and exchanges of experience and to guide the progress of consolidation work. The third was program implementation. The prefectures, cities, counties and communes drafted programs involving specific stage-by-stage arrangements. Leadership comrades of many prefectures personally involved themselves in spot experiments in finance consolidation and held experience-exchange meetings, which resulted in fast progress and good quality.

## III. The Relationship Between Consolidating Finance and Improving the Production Responsibility System Was Made Clear

Experience shows that all localities which make a combined effort in consolidating finances and improving the production responsibility system do solid work in improving the production responsibility system and are effective in consolidating finance work. Once the production responsibility system has been established, financial affairs must be put in order so that contracts can be signed and remittances to the higher levels and the contribution to the collective can be assured, in addition to which it is easy to put the production responsibility system in sound condition. At the same time, the improvement and stabilization of the production responsibility system also further promotes financial management work. If the production responsibility system is dealt with in isolation and a lax attitude is taken to reforming financial affairs, this may hinder implementation of the production responsibility system. But the production responsibility system and the consolidation of financial affairs are not, of course, the same thing: the consolidation of financial

affairs requires systematic clarification and solution of problems of financial management and the establishment of an effective financial accounting system, and these matters cannot be replaced by work on the production responsibility system; therefore effort must be focused on the consolidation work.

#### IV. Differentiated Guidance and an Accelerated Pace of Consolidation

Since the rural situation is developing rapidly, many problems require study. Based on the requirements of the production contract responsibility system, both household-level contracting and distribution on the basis of contract work must be closely followed by finance and accounting work. We must break out of the old stereotypes of centralized management, centralized accounting and centralized distribution in the production team, because the production teams' property has already been distributed to the households for management, and production receipts and expenditures are managed by the commune members themselves, which has fundamentally solved the problem of extravagance and waste, since the commune members' attention has turned to scientific cultivation and to development of the commodity economy. Therefore, old problems left over from the period of communalization and collectivization should be dealt with in a general way rather than in detail; efforts should be made to clarify new economic problems arising after the implementation of the responsibility system, and major cases of corruption and graft which cannot be immediately clarified may be treated as special cases. Individual problems should not be allowed to hinder the overall consolidation, but improvement of the production responsibility system and the consolidation of financial work should support and promote each other.

In order to accelerate the pace of consolidation of finance work, the localities have determined the nature of the problems, arranged them in order of priority, and given guidance for each type. In the case of communes which have already completed the consolidation, they have actively organized inspection, checking and acceptance and have made a vigorous effort to develop the system and build the accounting contingent. In the case of communes and brigades which are now carrying out the consolidation, they have stressed clarification of the main problems about which the masses are concerned, have established the finance and accounting systems suited to the actual circumstances, and have established specialized brigade accounting or a joint brigade accounting system used by several brigades. In the case of communes and brigades which have not yet started consolidation, they must analyze the causes and "treat the disease," and if the original property accounting was clear and property has already been assigned to households at price under household-level contracting, they should record it under the commune members' names and specify repayment periods. In cases where debts receivable and payable have already been set straight and repayment plans have been set up, there is no need to reopen the old accounts, but emphasis should be laid on clarifying new problems that have arisen since the establishment of household-level contracting and announcing to the masses that any remaining problems will be taken care of and any deficiencies will be made up. The operations management personnel and accounting guidance personnel should not be tied up with finance consolidation work for a long time; specific blocks of time should be used for concentrated work, and the work be completed in one effort.

## V. Establish Two Sets of Inspection and Acceptance Standards in Accordance with Different Forms of Operation

In accordance with State Council Document No 10 (1982), localities have set up different inspection and acceptance standards for the different types of operating forms. Localities which have completed the consolidation of finances have organized inspection and acceptance in accordance with standards, and those where it has not measured up have redone it. No matter whether the inspection and acceptance is done by themselves or done mutually, for convenience in comparison within each category they have all instituted the evaluation point system and have improved the quality of financial consolidation work.

## VI. Establish a Financial Management System Suited to Dispersed Household-by-Household Operations

In order to consolidate financial results and to deal with the problems that emerge in the course of the consolidation, necessary financial management systems have been established and put into good order.

A. A contract system has been established. The contracts include: (1) production targets for grain, cotton, oil and other agricultural products; (2) procurement and assigned procurement quotas for delivery to the state; (3) public accumulation funds, public welfare funds and management fees (including cadre subsidies) to be paid to the collective; (4) gradual institution of agricultural-commercial contracts so that the products to be sold to the state are linked to the supply of the means of production, while what is bought at an ordinary price should be sold at an ordinary price, and what is bought at a high price should be sold at a high price, so that responsibilities, rights and interests are closely connected. Once the contract is signed, it must be carried out; with the exception of inevitable natural disasters, in case of which both parties negotiate an adjustment of certain quotas or renegotiate the contract, the contracts cannot be altered. Neither party may take it upon themselves to tear up the contract, and if one party fails to honor it without just cause, the other party has the right to request compensation for his economic losses. The grain and cash handed over to the higher levels by the commune members must be kept separate and used separately, and inspection and permission procedures must be tightened up; no one is allowed to divert, misappropriate, or waste them.

B. The democratic financial management system must be strengthened. All of the commune's or brigade's important economic activities must be discussed and decided upon by meetings of commune members or their representatives. Signing, revision and honoring of contracts, procurement of fixed assets, capital construction on farming land and conduct of cultural, public health and other welfare projects all must be discussed and passed in advance by the masses, and the results must be reported to meetings of commune members or their representatives after completion; day-to-day financial activities, and accounting of the management and use of all payments to higher levels or collective levies must be announced to commune members at democratic financial management meetings held at regular intervals so that commune and

brigade financial and accounting work will be constantly under the masses' oversight.

C. Strengthen the fixed assets management system. Persons must be designated to manage the use of fixed assets held by the collective, management and use must be in agreement, and compensation and award and penalty procedures must be specified. Rational fees should be collected for plowing or processing done for commune members, and depreciation fees should be collected yearly for the use of fixed assets. When fixed assets are distributed to the households at an evaluated price, an installment repayment plan must be set up, and these payments must be handled as public accumulation fund items rather than spread around.

D. Establish a cash management system. Management of cash paid by commune members as the collective levy and of the cash receipts of collective enterprises and services must be strengthened. A central brigade-level collection and payment office may be set up, or the commune members may select one household to manage the cash. There must be a limit on the amount of cash that can be on hand, and unauthorized expenditures, indiscriminate lending and IOU's are strictly forbidden. The accounting personnel must inventory the cash on hand at regular intervals and square the accounts with the bank or credit cooperative in timely fashion; if errors or discrepancies are found, the causes should immediately be determined and dealt with.

E. Establish an accounting job responsibility system. The duties of the accounting personnel are: (1) to set up account books properly, record the accounts properly, compute them properly, and handle them properly, so that the accounts of cash and goods, and the data, tables and account books all tally; (2) to see to proper signing of contracts and to organize their fulfillment; (3) to open the accounts to the commune members or their representatives at regular intervals; (4) to submit earnings distribution reports and tables in timely fashion.

The rights of the accounting personnel are as follows: (1) to refuse any unreasonable expenditures which are not in accord with the system or which violate policy or rules and regulations; (2) to oversee and inspect the use of all types of certificates, accounts, vouchers, cash, assets and goods.

## VII. Establish Specialized Accounting Personnel and Stabilize Their Ranks

A. Energetically expand the evaluation and classification of rural accounting personnel. Methods include having the county conduct unified examinations or job performance evaluations and rate accountants in classes 1, 2 or 3 or as probationary accounts. Examination and rating shall be carried out once every 2 years, with promotions or demotions in accordance with the results, in order to encourage accounting personnel to master their work and raise their proficiency.

B. Reorganize rural accounting organs and personnel assignments. In the past, accounting was set up in every production team, but once household-level production contracting was established, some counties and communes set

up accounting offices at the brigade level, which maintained an account book for each production team, and took responsibility for the accounting and statistical work of the entire brigade. Where the residences were scattered, two or three production teams would establish joint accounting, which decreased the peasants' burden and helped improve the quality of accounting work.

Once the county and commune operations management stations begin to maintain personnel files on accounting personnel, all hiring and firing must be subject to examination and approval, and exchanges may not be carried out at will; when exchanges are made, there must be supervision to assure that the handing-over procedures are followed. A large number of specialized personnel who understand production and their jobs must gradually be trained so that they can be trusted with to serve and counsel peasants who have contracted for production.

C. Arrange reasonable compensation for accounting personnel. The commune operations management station shall determine and issue accounting personnel's wages in accordance with their ratings; the income of class 1 and 2 accountants should generally not be lower than that of a branch secretary or production team leader. The method of a base wage plus floating wage should be used, with the economic targets established in accordance with the job responsibility system; if they are met the accountant is given not only the base wage but a floating wage, while if they are not met well, only the base wage is paid.

D. Reform accounting training methods. For many years, accounting training work has consisted of "lots of error, lots of expense, poor results." How can we correct the situation? The experience of the localities involves separate training according to the class ratings of the accounting personnel rather than "cooking the new and the old together in the same pot." For new personnel, the most important thing is that they be taught to make entries, make calculations, draw up statistical reports and tables and do similar basic work; in the case of class 1 and 2 accountants with relatively high job proficiency, each period of training will deal with a new subject, which overcomes the problem of "always getting the same text when you have the monk recite the scriptures"; they learn economic theory, principles of bookkeeping, statistics and accounting, capital calculations, analysis of economic activity and other techniques in systematic fashion and gradually master the methods of scientific analysis of economic results, an approach which fundamentally corrects the passive situation of "training every year, reassignment every year, chaos every year."

#### VIII. The Cognizant Departments Should Take It upon Themselves to Seek Guidance from the Party and Government and Should Conscientiously Provide Good Suggestions

Before consolidation of commune and brigade finances, the cognizant departments must visit the countryside for surveys and spot experiments and should propose programs of consolidation work; they should constantly sum up experience in the course of consolidation, and if problems are discovered they

should immediately be reported to the party committee and government along with views and suggestions regarding their solution. Because the cognizant departments have sent in regular requests and reports, these have been taken seriously by the party and government leadership and the "three-way combination" has been achieved: i.e., consolidation of finance has been closely linked to improving the production responsibility system; consolidation of finance has been closely linked to agricultural production; and mass-style stocktaking has been closely linked to stocktaking by the specialized team. After the consolidation, inspection and checking should be organized and quality standards should be adhered to. If the leadership, the masses and the specialized personnel are all satisfied, financial management will develop soundly.

To summarize, the party and state policy for enlivening the rural economy must be conscientiously implemented in rural accounting work, financial and economic discipline must be adhered to, thrifty and industrious commune operations must be conducted, economic accounting must be strengthened, emphasis must be placed on economic results, the actual circumstances of the responsibility system must be taken as a basis, and we must solidly serve the people, the basic level, and production.

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CSO: 4006/671

FINANCE AND BANKING

NEED TO TAP POTENTIALS OF CIRCULATING FUNDS DISCUSSED

Beijing JINGJI RIBAO in Chinese 1 Jun 83 p 3

[Article by Yang Tzuhe [2799 1311 0735]: "The Need To Tap the Potentials of Circulating Funds To Meet Construction Requirements"]

[Text] The strengthening of circulating funds management and the tapping of the potentials of circulating funds have an important bearing on improving the management of enterprises, increasing economic efficiency, avoiding overstocking and waste and promoting the stable development of the national economy.

In the process of production, the circulating funds of the enterprises are in a constant state of movement to keep pace with the movement of goods. The funds start as accumulated cash, and then, during the processes of supply, production and marketing, take on the various value forms of cash funds, reserve funds, product-in-process, semi-finished product funds, etc. and finally return to the original starting point. It may, therefore, be seen that the turnover of circulating funds is an overall reflection of the movement of materials. It is for this reason that in order to improve the turnover of circulating funds, it is necessary to promote the movement of materials, that is, to adopt various measures to promote the national economy. In short, it is necessary to deal with the following relationships in a proper manner.

First is the relationship between speed and efficiency. While the national economy must be developed at a certain speed, emphasis should also be placed on economic efficiency. Very often, whether or not the nation's circulating funds are being properly utilized reflects on whether or not the speed in the increase of industrial and agricultural production is in keeping with efficiency. The rapid and efficient development of industrial and agricultural production inevitably results in speeding up turnover and proper utilization of circulating funds. Past experience shows that the turnover rate is rapid during years when the increase in production value is large and the amount of funds involved is small and that the turnover rate is slow and the efficiency is low when the increase in production value is small and the amount of funds involved is large. In 1965, when the gross industrial production value showed an increase of 26.4 percent over the previous year, 28.1 yuan in fixed circulating funds was involved for every 100 yuan in production value and the

period for the turnover of funds took 74.8 days. In 1976, when production value increased 1.3 percent, 38.5 yuan in fixed circulating funds was involved for every 100 yuan in production value and the turnover of funds took 143 days. However, there have also been years when the rate of increase in the utilization of circulating funds was very high while the rate of increase in industrial and agricultural production also appeared to be rather high. During the Third 5-Year Plan period, for instance, the rate of increase in industrial production came to 11.7 percent, while in 1970, the amount of circulating funds utilized for each 100 yuan in production value increased to 31.9 yuan from 28.1 yuan in 1965. During the Fourth 5-Year Plan period, industrial production increased 9.1 percent, while in 1975, the utilization of circulating funds for each 100 yuan in production value increased to 34.7 yuan. Because the products derived from increased production were stored in warehouses and remained unsold over a long period of time, thus tying up the circulating funds, there was no alternative but to sell them at reduced prices at a loss of 10 billion yuan. This goes to prove that the speed of increase in industrial production can be deceptive and that the loss is the result of putting emphasis exclusively on speed without giving consideration to economic effectiveness. While calling for quadrupling as a strategic objective, the 12th National CPC Congress at the same time also laid heavy emphasis on economic effectiveness. In seeking to implement the spirit of the 12th National CPC Congress, it is essential that we avoid the error of trying to achieve speed in a blind manner, and attempt to quadruple everything. In the formulation of our plans, we must pay adequate attention to the need to combine speed with efficiency. In particular, in setting a target for, and in evaluating the rate of the increase of, production value, we must simultaneously determine and evaluate the corresponding index of economic efficiency. We should even consider using net production value or the speed of the increase in sales as a supplementary gauge for measuring the speed of increase in production value.

Second is the relationship between intensive and extensive expansion of reproduction. According to the Marxist theory on reproduction, extensive expansion of reproduction generally means the expansion of reproduction by increasing the amount of labor and materials through the expansion of the production site, and intensive expansion of reproduction generally means the expansion of reproduction by improving the quality of the key elements of production and the utilization of funds. In the process of socialist construction, the expansion of reproduction, both extensive and intensive, is called into play, although there may be a shift in emphasis at different periods in history. Over a long period of time, we have, in going about our projects of economic construction, laid emphasis on large-scale projects of capital construction to the neglect of the development of the potentials and the need to renovate and remodel existing enterprises. Now that we have already established a material and technical foundation of considerable proportions, we must resort to the intensive expansion of reproduction in the main to make full use of the existing enterprises in the development of production. Generally speaking, the expansion of reproduction by resorting mainly to intensive means is capable of achieving twice the result with half the effort. From the construction cycle point of view, the cycle of technical renovations is shorter than that of new

constructions. In the 3 years between 1979 and 1981, the average cycle for large and medium projects of capital construction took 10.6 years, while the construction cycle for renovating the enterprises of similar scale and using half the equipment and materials and saving two-thirds of the funds was much shorter. The increase in circulating funds required for the technical renovation of existing enterprises for the expansion of reproduction of similar products in a similar quantity is a great deal less than that required by the newly constructed enterprises after they have gone into production. Renovations have resulted in a reduction in the use of raw materials and fuel and the cost of production, an improvement in quality and a smaller amount of circulating funds required. In 1982, the funds used for the intensive expansion of reproduction throughout the nation exceeded that allocated for new projects of capital construction. The increase in economic effectiveness is certain to become apparent in the next few years.

Third is the relationship between production and circulation. In the process of socialist reproduction, production plays a leading role and exerts a decisive effect on circulation. At the same time, circulation, which forms a vital link in the process of socialist reproduction, also exerts a counter-effect on production. The movement of funds is also integrated with the process of production and circulation. The period for the turnover of funds is the sum total of the production and circulation periods. That is to say, it is the period from the prepayment of funds in a certain form to the return of the funds to its original form. Generally speaking, the periods of production and circulation are relatively short. In the production cycle of machine products, for instance, only 5 percent of the time is spent in the stage of processing, while most of the time is spent in storage to await marketing and shipment. So that the circulation of funds may proceed at a proper rate and the turnover period may be shortened, the socialist enterprises must put their emphasis not only on production but also to a certain extent on circulation and marketing. They must achieve a balance in supply, production and sales and, keeping in mind consumer needs and market conditions, turn out products that are in demand. The industrial and commercial departments must achieve close coordination and provide a mutual impetus in promoting marketing, in speeding up circulation and in meeting the needs of society.

In view of their direct relationship with the producers as well as the consumers, the state commercial departments may, on the basis of their day-to-day study of changes in market conditions and consumer needs, offer the production departments information on market conditions and the opinions of consumers. At the same time, they should, in going about their monopoly purchasing, planned purchasing, purchasing on orders and selective purchasing, stringently implement the purchasing policy of the state, lend their support to the industrial and agricultural departments in increasing their production to meet the needs of society and develop the dynamic reactive role which can be played by the circulation departments.

Fourth is the relationship between the macroscopic and microscopic benefits. The increase in macroscopic benefits must be based on microscopic benefits, while the increase in microscopic benefits must have macroscopic benefits as a

prerequisite. Microcosmic benefits must, however, be subordinate to macroscopic benefits. The utilization of funds often reflects the conflict between the two. There are times when the turnover of funds would appear from the microcosmic point of view to have been speeded up and the benefits to have been considerable, whereas from the overall and macroscopic points of view, that is not the case. Some enterprises, for instance, may cut down on the utilization of funds while their products are being stockpiled by the commercial departments; while some retail enterprises have speeded up the turnover rate, the wholesale enterprises have slowed it down. For this reason, while it is necessary from the microcosmic point of view to strengthen control and the method of evaluation for the proper utilization of funds, it is also necessary, from the macroscopic point of view, to strengthen control and planning on an overall basis. As the national economy is being readjusted and the economic structure is being improved, the macroscopic economic benefits have already shown a considerable upturn. This, however, is just a beginning. So far as the factors affecting the excessive utilization and slow turnover of circulating funds are concerned, the following developments may be plainly seen: (1) In the capital construction area, the average amount of accumulation for each 100 yuan and the increase in the national income derived from investment in fixed assets from 1978 to 1981 were 27.5 yuan and 43.6 yuan, respectively, or less than the 35 yuan and 52 yuan at the time of the First 5-Year Plan. The turnover rate for capital construction was 50 to 60 percent slower than the best period in history. (2) In the production area, the rate of materials consumption is high. According to statistics, the ratio of material wastage in the total amount of production in society was 56.4 percent in 1981 and only 44.3 percent at the time of the First 5-Year Plan. From 1978 to 1981, the material wastage in the industrial departments was 65.7 percent in 1966. An important factor accounting for the high rate of material consumption is the serious wastage of materials. (3) Due to the unmarketability of the products, the funds used for storage by the industrial production departments, the industrial supplies departments and the commercial foreign trade departments amounts to 10 percent of the total amount of circulating funds. To bring about a change in the situation, it is necessary to go a step further in the implementation of the readjustment, restructuring, consolidation and improvement policy. From the microcosmic point of view, it is necessary to engage in a serious manner in the work of reorganizing the enterprises and their finances, to get the workshops and workers at different levels to achieve the target set for the turnover rate of circulating funds and to establish a relationship in the distribution of benefits to the enterprises, the workshops, the teams and groups and individuals. From the macroscopic point of view, it is necessary to continue to readjust in a proper manner the relative ratios in the national economy, to reorganize the structure of production units, to strengthen planned leadership and administrative intervention on the principle of resorting to the planned economy as the chief measure, and market adjustment as a supplementary measure, and to use the economic lever to strengthen supervision, adjustment and leadership. While drawing up production plans for mandatory and planned products and for planned products according to a quota, it is necessary to formulate a plan for marketing so that the amount of production may approximate that of sales. While being put into execution, the plan should be promptly revised if supply is found to have exceeded demand; production should be curtailed if products are slow to sell; products that are obsolete

should be discontinued; on the principle of dealing with the situation according to the circumstances, the banks should refuse to extend loans to enterprises for the manufacture of products that do not sell, that consume a great deal of energy, that are poor in quality and high in cost, as well as products that have been declared obsolete, and to enterprises which have been ordered by the state to close down, to suspend operations and to switch to other operations.

So long as we can truly deal with the relationships in the four areas listed above in a creditable manner, there is no doubt that we can fully tap the potentials of circulating funds.

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## FINANCE AND BANKING

### BETTER USE OF BASIC DEPRECIATION FUNDS DISCUSSED

Beijing CAIMAO JINGJI [FINANCE, TRADE AND ECONOMICS] in Chinese No 5, 11 May 83  
pp 4-8

[Article by Zuo Chuntai [1563 2504 0669] and Xiao Jie [5135 2212]: "Inquiry Into Improved Methods of Collecting, Using and Controlling of Basic Depreciation Funds"]

[Text] Our struggle objective of quadrupling the gross output value of industry and agriculture requires not only a concentration of our capital resources on such key projects as energy sources, communications, etc., but also a vigorous effort at the renewal of equipment and technological transformation of our existing enterprises. In the light of the present situation, we can predict that the eighties will bring forth a high tide of renewals of equipment and technological transformations never before experienced since the establishment of our government. The quality and effectiveness of this work will have a bearing on the whole economic development of the next 10 years and on the successful accomplishment of the grand objective set forth at the 12th CPC National Congress. The summing up of our historical experiences and inquiring into ways of raising capital for renewals and transformations and into ways of improving the management and use of such capital has become at present a topic that urgently demands our intensive study.

At this juncture, the sources of capital for renewals and transformations in our enterprises include depreciation funds for fixed assets, exploitation of existing potential and transformation capital provided for in the national budget, various facilities and loans granted by banks and the production development funds in the profits which the enterprises are allowed to retain. Among these funds, the basic depreciation funds collected and withdrawn by the enterprises constitute the main source of capital for renewals and transformations. We shall, therefore, focus in our study particularly on the withdrawal, use and control of basic depreciation funds in the enterprises.

#### 1. Short Historical Review

Since the establishment of our government, the withdrawal, use and control of basic depreciation funds in our enterprises has, roughly speaking, passed through two major stages. The first stage was from 1953 to 1966. On the basis of the first inventory of assets and verification of capital funds in 1953, and in the light of the level of production at that time and the experiences of the Soviet Union, approval was given, after due examination, to a

rate of depreciation for fixed assets in state-operated enterprises, and the initial average rate of annual depreciation for industrial enterprises was set at 3.7 percent, which was raised to 3.9 percent in 1966. The depreciation funds withdrawn at the enterprises were basically all turned over to the state treasury in full for unified management, centralized disposition and use by the state. The second stage was from 1967 to the present. The rate of depreciation of fixed assets in industrial enterprises was slightly adjusted three times, in 1972, 1978 and 1979, and raised from the 1966 rate of 3.9 percent to 4.3 percent in 1981. At the same time, starting in 1967, by far the larger portion of the basic depreciation funds was remitted back to the enterprises, for them to manage and dispose of. Only a small part was kept under the control of the various departments in administrative charge of the enterprises. After 1976, the state again appropriately centralized control of a portion of these funds.

According to statistics, the total depreciation funds withdrawn by the enterprises during the period 1953 to 1966 amounted to 35.5 billion yuan, and the state allocated a total of 10.5 billion yuan to the enterprises for their four kinds of expenditure and as subsidy for renewals and transformations, the two amounts showing a difference of 25 billion yuan. This was an amount "borrowed" by the state from the depreciation funds to finance capital construction projects. During the period from 1967 to 1981, the total basic depreciation funds (including renewal and transformation funds withdrawn according to actual output) retained by all enterprises for their own use amounted to 142.4 billion yuan, which was more or less equal to the total original value of all fixed assets of all state-operated enterprises in 1965. The total value of basic depreciation funds retained by the industrial enterprises amounted to 98.1 billion yuan, which even exceeded the total original value of the fixed assets belonging to all industrial departments in 1965. This means that if these funds would have been properly applied and managed in the right way, all fixed assets dating from before 1965 in all enterprises could be completely replaced. However, nothing like that had ever been done. Why was that so? Now that the people clamor about the need to raise the rate of depreciation for fixed assets, the need to renew equipment and the need to carry out technological transformations in old enterprises, many comrades have also come to earnestly ponder the question: Where did over 140 billion yuan of capital go? Where is the leak? How is future control to be strengthened? Otherwise, if we do not plug up the hole and do not strengthen controls, even larger sums of capital funds for renewals and transformations will be of no use to our undertakings.

## 2. Where Did More Than 140 Billion Yuan of Depreciation Funds Go?

We have to say that up to this day there are no data that can give a completely satisfactory answer to this question. When depreciation funds were remitted back to the enterprises in 1967, it was precisely the time when the "10 years of turmoil" started. Under the abnormal conditions of that time, some of the funds were left unused, some were misused, some diverted to other uses and some just wasted, as is easy to imagine and understand. In addition, the accounting system and statistical work were in shambles, and it is hardly

possible to get complete statistical information on the conditions of use of the depreciation funds during the period of the "10 years of turmoil." Since the 3d Plenary Session of the 11th CPC Central Committee, it was emphasized on many occasions that the principle and policy for expansion of reproduction in the course of our economic development should turn in principle from extensive to intensive. More and more use has also been made since then of banks and of the granting of various kinds of loans for renewals and transformations. Only as late as from 1979 to 1981, an earnest start was made in renewals and transformations in enterprises and during that period initial successes have indeed been achieved.

According to the Bureau of Statistics, among renewal and transformation type of investments of 50,000 yuan and over during 1981 throughout the country, 48.7 percent used such investments for new constructions or expansions, only 36.6 percent used the investments directly for renewals of equipment or transformation of factory buildings (in this amount, 20 percent was for renewal of equipment), and 14.7 percent used the investment on other projects. These figures are for the country as a whole. Judging by conditions in certain provinces and municipalities, there has been an even more serious diversion of renewal and transformation funds for new constructions and expansion of buildings. For instance, in Hunan Province, 80 percent of the renewal and transformation capital during 1979-1981 was used on the expansion of general processing capacities, and in this sum 40 percent was used on civil engineering and construction work. In the seven cities of Shenyang, Dalian, Anshan, Fushun, Dandong, Jinzhou and Benxi in Liaoning Province, 746 million yuan renewal and transformation type investments (not including cases of enterprises using their own capital) were used on 3,832 items of production projects, of which 77.2 percent were expansions of production capacities, and only 19.6 percent were used to carry out economies, to improve product quality and raise labor efficiency. The way the enterprises used their own capital was also more or less along these lines.

There are still many more examples of this nature. Some comrades have characterized the conditions of renewal and transformation capital use during the last 3 years as the "three more and three less," namely more used on new buildings and expansion of buildings, less used on renewal of equipment, more use of old technologies and less use of new technologies, more used on manufacturing and increased quantities or products, less used on economizing, eliminating waste and raising product quality.

The above facts explain: only about 30 percent of the renewal and transformation capital was really used on renewal of equipment and transformation of technology. Moreover, there was little effective integration of equipment renewal with technical transformation. Often it was a case of "when it comes to factory buildings, get them as new as possible; when it comes to equipment, let the old stuff do." We must not conceal the fact that much of the basic depreciation funds turned over in full to the treasury before 1967 was mostly used on capital construction. Even after 1967, when most of the depreciation funds were left at the disposal of the enterprises, about 70 percent or even more of this capital was diverted to capital construction. Therein lies the crux of the problem.

### 3. Why Was Much of the Depreciation Funds Diverted to Capital Construction?

There are many reasons for that. Objectively, there were the upheavals and detrimental effects of the "great leap forward" and the "10 years of turmoil." Furthermore, because the time the depreciation fund was collected was not the time it was used, the enterprises always had an amount of reserve funds lying idle before fixed assets actually had to be written off as obsolete and renewed, which provided the possibility and a convenient opportunity to divert the funds to other purposes. This was particularly so since there was no clear and distinct policy promoting technology in the economy and on investments, and no strict plan management or responsibility system. Subjectively, the main reasons were: (1) Economic construction had for a long time suffered the influence of "leftist" ideology, and production development was not effectively integrated with science and technology. It was not realized that science and technology can be turned into a huge productive force. Whenever production development was mentioned, it became a matter of deploying a new setup, putting up new projects, engaging in capital construction, and no ability was shown to tap potential by renewal of equipment and by technological transformations in the currently available enterprises. (2) The lack of a needed responsibility system in the use and management of depreciation funds, resulting in everybody "eating from the same big pot." (3) The many years of chaotic management. The demarcation lines between renewals and transformations, on the one hand, and capital construction, on the other, were blurred and obscure. When certain items of capital construction became disavowed as such, they were still continued under the name of renewal and transformation. Reductions in investments for certain capital constructions were made up by diverting depreciation funds from enterprises. Outwardly they were proclaimed as "renewals and transformations," but in actual fact they were capital constructions. (4) Metaphysics--the remittance of depreciation funds back to the enterprises was made out to stand in an antagonistic opposition to stricter management and control. After the depreciation funds were remitted back to the enterprises in 1967, there was neither a plan to guide the renewal of fixed assets, nor a clear and definite policy on technology that could have imparted restraint and supervision. Examined from a financial point of view, before 1967 the emphasis was on "borrowing" (which had its justification in the fifties), and the "repayment" aspect was ignored. After 1967 the emphasis was on "remitting back" (which was correct), but the "control" aspect was ignored. Our attitude to these two aspects of the problem is related to our not realizing, or insufficiently realizing, the innate character and special features of depreciation funds and the rules of their application.

### 4. What Is the Innate Character of the Depreciation Fund and What Are Its Special Features?

Although our present knowledge is still rather superficial, it may be said that we gained some knowledge, or at least advanced somewhat compared to the past, following our deeper involvement in practice and the accumulation of some experiences.

- (1) Fixed assets are assets that serve many repeated production cycles over a fairly extended period of time. Physically they are gradually worn out by

continuous use, and their value is also gradually worn away as they are physically being worn out. The wear and tear of the physical asset requires restoration and its loss of value must be compensated. In line with the gradual wear and tear of the fixed asset, the depreciation fund provides a reserve fund in cash, which is added into the price of the product at a certain rate in relation to the value of the fixed asset, and which is formed by deductions from the sales proceeds of the products. The innate character of the depreciation fund is, therefore, that of a compensatory fund, and its basic function is restoration or renewal of a fixed asset. Even though it may be permissible at certain times and under certain circumstances to borrow the depreciation fund as an accumulation fund, this will in effect only be a borrowing, and repayment will have to be made because physically the original fixed asset will sooner or later have to be renewed.

(2) There is first a dispersed assembly of the fund over many years followed by a concentrated one-time use at some later date. This is an outstanding special feature in the movement of the depreciation fund. This disunity and disproportion between accumulation and use of the fund manifests itself not only as a difference between the various different fixed assets within the same enterprise, but also between different enterprises (new and old enterprises), between different sectors (newly established industrial sectors and old industrial sectors) and between different areas (new industrial zones and old industrial zones). This then gives rise to the demand for mutual adjustments in the use of depreciation funds.

(3) The use of a depreciation fund is linked with the application of new technologies. In the wake of scientific and technological progress and the rise in labor productivity, the value of a certain fixed asset can provide a new piece of equipment of higher efficiency and producing higher quality goods. This means the depreciation fund collected and withdrawn with respect to one set of machine equipment can provide replacement in physical form of a more advanced piece of equipment than the asset it helped write off as obsolete. Although the renewal of a fixed asset is generally said to belong in the sphere of simple reproduction, it does not at all mean that it is simply a replacement of the written-off fixed asset by the same kind of fixed asset. "Most instruments of labor are continuously being replaced because of industrial progress. They are therefore being replaced, not in their original form, but in an improved form. (Karl Marx, "Das Kapital," Vol 2, People's Publishing Co, 1975, pp 190-191) It means that through renewals, backward equipment is being replaced by advanced equipment.

(4) The depreciation system, including the high and low rates of depreciation and the duration of the depreciation, the accumulation, use and control of the depreciation fund must be established on the basis of economic accounting and raising economic results. It displays a country's economic and technological policies at a certain period and is also linked with the developmental level of the national economy. An inappropriate stress on "repair the old and utilize the discarded" is in a certain sense a kind of waste because outdated or wornout equipment, maintained only by the investment of large sums of expenditure for repairs, is not necessarily more economical and profitable than

buying new equipment or earlier replacements. Conversely, if one departs from the actual level of productive forces and demands the write-off of the original equipment ahead of time and a large increase in the rate of depreciation, it will possibly be more haste than speed and equally uneconomical and unprofitable, because the subjective demands for new techniques, new technologies and new equipment will after all be quite a different matter from the objective ability to provide such new techniques, new technologies and new equipment. If the rate of depreciation is raised and the original fixed asset is written off ahead of time, it does not mean that new science and technology will already have made its appearance and that advanced machinery and equipment has been produced so that the old equipment can be naturally eliminated. In this matter, one must also start out from the realities, attune to the national conditions of China and observe the objective law.

The accelerated depreciation method currently in use in the capitalist countries was indeed of a certain effectiveness with regard to expanded investments by capitalists, the employment of new technologies and the speeding up of the renewal of fixed assets. However, we must also not lose sight of the fact that the capitalist system of depreciation has all along been a component of taxation laws, where it was a basis for the calculation of taxes (income tax). The accelerated depreciation allows an increase in the depreciation fund and a corresponding reduction in income tax. This amounts to having the government provide the capitalist with a subsidy in the form of reduced taxation. It is then completely at the discretion of the capitalist to decide on the basis of his personal interests what to do with this amount of money, whether to use it for new investment, invest it in which direction, use it for the renewal of equipment and when to renew the equipment. However, no matter how, a man-made reduction of the turnover time for fixed assets is bound to lead to a serious disjunction between the value-wise compensation of a fixed asset and its physical replacement, and this serious disjunction can also constitute an important factor of an economic crisis. Under the conditions of public ownership in the socialist economy, the main function of the depreciation system is to ensure the renewal of fixed assets and the transformation of technology. There must be a unison between the rate of depreciation and the number of years after which the fixed asset is to be renewed. It is furthermore possible, through our economic planning and overall balancing, to ensure a harmonious development of the various proportions of renewals and new constructions.

##### 5. Tentative Ideas for the Improvement of the Collection, Use and Control Methods for Depreciation Funds

The following are tentative ideas for the improvement of methods of collecting, using and managing depreciation funds based on historical experiences and with due regard for the special characteristics of these funds:

- (1) The soonest possible determination of a technology policy and an overall plan for the renewal and transformation of fixed assets, comprising an overall plan and individual plans for the different industries, plans for medium-, long- and short-term application, all to be scientifically proven and attuned

to the national conditions of China. This is a precondition for the improvement of methods of collecting, using and controlling depreciation funds. Without these prerequisites, it is like running a race without a certain goal or plan, just shooting off a starting gun and letting the athletes run. It could hardly achieve any objective, but may even lead to a state of repeated duplications in construction and irrational transformations, causing even greater wastages.

(2) Instituting an economic responsibility system in the management of fixed funds and stipulating clearly that it is the duty and responsibility of each state-operated enterprise to guarantee the integrity and completeness of the fixed funds, to guarantee the on-schedule renewal of fixed assets and the continuous rise in economic results, based on the employment of new technologies. On this basis, the authority of the enterprises to withdraw and use the depreciation funds is to be established. At present, the state-operated enterprises collect 20 billion yuan of depreciation funds every year, which amounts to 200 billion yuan in 10 years. If we do not have the needed responsibility system, if the enterprises show no zeal and sense of responsibility in economic respects to do a good job at the renewal and transformation of fixed assets, it will most likely be as it was after 1967, that everyone will "eat from the same big pot," that some will shout about too low a rate of depreciation and about insufficient funds for renewals and transformations, but no one will be responsible for the use and effectiveness of the 200 billion yuan of depreciation funds, and the question will again be asked, where did this huge amount of money go.

(3) A gradual raise of the depreciation rate for fixed assets, with key points of emphasis and in a differentiated way. First of all, the overall depreciation rate is to be changed to a classified rate, and the unreasonable state of especially high rates for houses and structures and of especially low rates for machinery and equipment has to be changed. On the basis of classified depreciation rates, the rates for machinery and equipment have to be raised and the number of years for depreciations have to be shortened with due regard for key points of emphasis and in a differentiated manner. By key points of emphasis we mean, in respect of industries, those engineering industries that provide the national economy with advanced equipment; in respect of zones, those old industrial bases along the coast; in respect of enterprises, those key enterprises that are the mainstay of the national economy; in respect of items of commodities, those goods that are replacements of old products, that economize in energy consumption, reduce wastage and show higher quality and better economic results. By the differentiated way we mean the different treatment for processing and for excavating, for goods in excessive supply and for goods in short supply, for high and low economic results, for already reorganized and not yet reorganized conditions and for places that must be energetically supported and places that must be closed, suspended, merged or retrooled. Having no key points of emphasis and no differentiations would amount to having no policy, and it would be undesirable to raise the depreciation rates uniformly and to rush headlong into mass action without key points of emphasis and without differentiations.

(4) As demanded by the responsibility system in the management of fixed funds, the entire depreciation fund must in principle be left to the enterprises and corporations to implement the said responsibility system.

Of course, judging by experiences in certain areas, concentrating a part of the depreciation fund in the hands of the department in administrative charge benefits carrying out technological transformations separately by industries. If the department in administrative charge is capable of bearing the responsibility for the renewal and transformation of fixed assets in its particular branch of industry, it should be permissible to establish a responsibility system with the said department being the responsible party.

Some people have questioned whether the state is still supposed to hold a part of the funds in appropriately centralized control. According to the current method of management, most of the depreciation funds are left with the enterprises and only one portion is appropriately centralized with the treasury to be allocated to certain departments in administrative charge to carry out technological transformations in key industries, key enterprises and for key items of production. This method certainly has its advantages, however, for one thing, the centralized portion is after all limited and is not applied in a concentrated way, so if it is not like "sprinkling pepper," it appears like "fish bait." As to its effectiveness, nobody knows and moreover nobody takes responsibility for it. Secondly, the unit that receives the allocated amount gains a gratis allocation and will additionally keep writing off depreciations as before, even may go on raising its depreciation rate. Is this not enjoying some extraordinary advantages, having a double source of capital for one purpose? Thirdly, enterprises that turn over depreciation funds to the treasury are short of a part of their own depreciation funds. Who will compensate them in future and who will supplement their funds if they have not enough capital at the time they need it for renewals? We have also no answer to that. If such be the case, would it not be sounding off empty words if we then speak of guaranteeing the integrity and completeness of fixed funds and guaranteeing the on-schedule renewal of fixed assets?

Some people have suggested that the portion in the centralized control of the state may no longer be allocated free of charge, but be transferred to the banks as a fund for renewal and transformation loans. This would solve the problem of gratis use of such funds by the units in question and their getting funds from two sources, but it will not solve the problem of returning the funds to the unit that had turned over such funds to the treasury and later finds itself short of capital.

If the state appropriately concentrates one portion in its hands, under the conditions of remitting depreciation funds back to the enterprises without further control and without enforcing a needed responsibility system, this could still be regarded as a feasible remedial measure, but it would still not be a radical plan.

Some people may ask, if in principle depreciation funds are remitted back to the enterprises and corporations in their entirety, they will have surplus

funds if they do not do anything with them and will have insufficient funds if they truly want to do something. Will this not lead to a further dispersed use of funds and be detrimental to any concentrated use and to the guaranteed completion of key projects? By outward appearances, the total remittance of depreciation funds back to the enterprises without further centralization is indeed a further dispersion of funds. However, in essence, through a clear and definite policy on technology and strict plan control, through deposition in particular accounts and bank credits (that will use surpluses to make up shortages where such occur), through an economic responsibility system and supervision by the state's financial administration and the banks, the use of the depreciation funds will become more concentrated in future and will not at all be scattered. The key question is what method of control will be employed after the depreciation funds are transmitted back to the enterprises? If we say that the depreciation funds are in principle to be fully remitted back to the enterprises, this is to apply to conditions in general. In certain special conditions, if there is overproduction by certain equipment, or in case of equipment for enterprises that should be closed down, etc., the state could clearly and definitely decide that the total depreciation funds be turned over to the state or be frozen, and that the enterprise not be entitled to retain and use such funds.

(5) Strengthening the management of depreciation funds and integrating in a dialectical way the remittance of the funds back to the enterprises with a control of the funds. Apart from implementing the above-described responsibility system for fixed capital, a responsibility that enterprises must bear, it might be considered to stipulate: First, the depreciation fund must be deposited at a certain predetermined bank (such as the Bank of Reconstruction) into a special account and must be subject to supervision by the bank where the account is opened. Second, the depreciation fund must only be used for the renewal of fixed assets and must not be diverted for other uses. It is only permissible to tie up the production development fund, which is a portion of profits that the enterprise is allowed to retain, and any other funds with the depreciation fund to be used for items of renewal and transformation, but it is not permissible to use the depreciation fund together with basic construction funds and other capital funds for capital construction and other expenditure. Third, the use of depreciation funds must have an annual renewal and transformation plan, which must be dovetailed with the plans of that industry and similar industries, must be materially guaranteed and must have been approved by the department in administrative charge. Fourth, the new technology, new techniques and new equipment that are to be employed must be suited to the state's policy on technology. Fifth, the banks should grant loans to projects that conform to the above rules whenever there is a shortage of capital. If the project does not conform to the above rules, the depreciation fund must not be used even if there were abundant funds available. If there is any diversion to other purposes, the bank should be authorized to freeze the particular account and to transfer back an amount equivalent to the diverted funds from out of the profits that the enterprise is allowed to retain. Sixth, the interest on bank loans should be as favorable as possible, and repayment terms may be appropriately extended, but the enterprise must only use future annual depreciation funds and not enterprise profits for

repayments. Otherwise, the increase in depreciation rates and the return of depreciation funds back to the enterprises will lose their effectiveness and their significance and a convenient door will be opened for the diversion of funds and irregular use of funds. Seventh, the state budget will no longer provide renewal and transformation capital. In case of real need and a possibility to provide some such funds, they must only be used to increase funds at the banks for renewal and transformation loans, and no funds should be allocated directly to the enterprises and departments.

Some comrades have also suggested: In view of the historical experiences, if there is an amount of depreciation fund provided in an enterprise, especially in a new enterprise, which for the time being they have no use for, it would be difficult not to let these funds be diverted to other purposes, and bank supervision would in such cases also take a lot of doing. Could it not rather be stipulated that new enterprises during their first year should turn over to the state 90 percent and retain 10 percent of the depreciation fund (to be used on partial renewals of fixed assets), in the second year turn over 80 percent, in the third year 70 percent, in the fourth year 60 percent, in the fifth year 50 percent, and starting from the sixth year retain the total amount of such funds in the enterprise. This method would be logical and in a certain way also facilitate control. However, carrying out this method would still leave the problem of how to effect repayments. It could also be considered not to turn over these funds to the state treasure, but to loan these funds to the Bank of Reconstruction as a fund for renewal and transformation loans and have the bank effect repayments within certain limits of time. This is an idea that is well worth our further study.

Whether the above conceptions can all be realized and whether there are better ideas and schemes should be the topic of further discussions. In any case, however, we must sum up the successes and failures throughout our history and, moreover, employ the form of drawing up rules with explicit legal provisions governing the collection, use and management of depreciation funds so that there will be a legal basis to rely on and to follow.

Of course, it is also quite in order to consider the matter from the opposite side, namely whether the above-stated methods or regulations would not be too strict and controls too rigid. This, too, must be the subject of our deliberations, but the historical experiences have already told us: "Only a car with good brakes can risk running fast." Any system of regulations and controls has one side to it that is promoting things and one side that is restrictive. In the same way that no one will regard steel tracks as impeding the running of the railway, we must not regard controls as impeding the renewals and transformations that are to be promoted in our enterprises. Comrade Chen Yun once compared macrocosmic controls and microcosmic work performances to a bird in a cage. The bird is not held in hand and squeezed to death, but also not free to soar up and away, it is merely allowed to fly around in its cage. A certain system of controls is like an appropriate cage, one can adjust the size of the cage, but certainly cannot do without it.

FINANCE AND BANKING

BRIEFS

AGRICULTURAL LOANS--It was learned yesterday from the branch of the Agricultural Bank of China in Jiangsu Province that in order to adapt to the household contract responsibility system, the various rural areas throughout the province have, since the beginning of the year, newly established more than 6,000 credit service stations. From January to May the province has extended to credit union members loans amounting to 417 million yuan, that is, 9 times the amount for the same period last year, or 71 percent of the total amount of agricultural loans. [Text] [Nanjing XINHUA RIBAO in Chinese 18 Jun 83 p 4] 9621

CSO: 4006/634

## CONSTRUCTION

### JINGJI GUANLI ON EMPHASIZING KEY PROJECTS

HK120937 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 7, 5 Jul 83  
pp 9-11

[**"Economic Commentary" by Zhou Chuan [0719 1557]: "Realistically Emphasize Key Projects"--passages within slantlines published in boldface]**

**[Text]** In order to materialize the great goal defined by the 12th CPC National Congress, it is imperative from now on to stress key capital construction projects so as to build a solid foundation. This work represents a vital one that will decide whether we will be able to build a powerful country and it also represents the basic interest of the people across the country.

The economic situation in China was excellent in 1982. But in our efforts to develop the economy there has existed an outstanding problem of excessive increases in the investments in capital construction. The investments in capital construction across the country last year totaled 55.5 billion yuan, 11.2 billion yuan higher than the previous year, an increase of 25.4 percent. This figure has surpassed not only the 7.8 percent growth of industrial and agricultural production and the 7.4 percent growth of the national revenues but has also exceeded the 9.9 percent growth of heavy industrial production. The amount of the investments in capital construction has been out of control and it is now beyond the reach of the state financial and material power. What is more serious, is that the funds have been used in such a scattered manner. Of the total investments in capital construction, the proportion of investment outside budget is too big; the investments made by localities, departments, and enterprises with funds raised by themselves, and the total investments in capital construction of the loans of various forms were 8.9 billion yuan higher than the figure for the previous year, with their proportion increasing from 43.2 percent in the previous year to 50.2 percent; in contrast, the proportion of investments in capital construction which were directly arranged in the state budget dropped from 56.8 percent to 49.8 percent.

Excessive capital construction and the scattered manner of investments have resulted in the following problems: First, since the second half of last year, the supply of the means of production such as steel, timber, and cement has become tight; second, a situation has emerged in which the projects that are included in planning have been squeezed by the projects that are excluded from planning, and key projects have been squeezed by ordinary projects. There is

no guarantee for the investments in state key projects. For example, the proportion of investment in the energy industry has dropped from 20.6 percent in the previous year to 18.3 percent last year and the proportion of investment in scientific and research projects has dropped from 2.1 percent to 1.8 percent. Last year, of the 80 big and medium projects that, according to state planning, should be built and put into production, 33 are yet to be completed. Conversely, the number of general projects that should be controlled, increased from 60,000 in the previous year to 71,000 last year, and, of this figure, 34,000 were new projects that began production in the same year and quite a number of these new projects are duplicated, thus showing serious blindness; third, a tendency has emerged in which light industry is being squeezed by heavy industry. Light industry grew by 14.1 percent in 1981, but last year the growth dropped to 5.7 percent. This situation continued to slow down in the first 5 months of this year, with a growth of only 4.8 percent as compared with the same period last year and this figure is much lower than the growth of 11.7 percent of heavy industry.

Past experience, if not forgotten, is a guide for the future. Since the founding of the PRC, our country has experienced on three occasions (1958, 1970 and 1978) a situation in which the investments in capital construction drastically increased to more than 10 billion yuan annually. On these three occasions, the size of capital construction was too big and the front line was too long and consequently economic life became tight everywhere and the national economy was seriously out of balance. The basic reason for the emergence of such a situation on many occasions is that we are too eager to make achievements and we have gone too far beyond the capability of our country. And last year, the volume of the investments in capital construction was also drastically increased. This uncontrolled situation has continued into this year. The proportion of investments in capital construction across the country in the first 5 months of this year was 17.3 percent higher than the same period last year. There is a possibility we may repeat the same disastrous old historical mistakes and lose the achievements we have made in readjusting the national economy unless we take resolute measures to strictly control the investments in capital construction. We ought to remember our past experiences.

Efforts must be made to do well the following work before we are really able to control the size of capital construction and guarantee key construction projects:

/First, it is imperative to unify thinking./ Being impatient for success and acting according to our capability are two completely different guiding ideologies in economic construction. We have suffered enough in history when we are impatient for success. Following the 3d Plenary Session of the 11th CPC Central Committee, order has been restored in economic construction and more and more people have come to realize the danger of the "theory of making success hastily" but we can in no way say that we have all been totally freed from such thinking. To prevent "being impatient for success" does not mean that we must pay no attention to speed, let alone carrying out our work slowly; on the contrary

we must make development in a planned way and proportionately, avoid big fluctuations and strive to quicken the realization of the modernization program. Therefore, we must conscientiously follow the principle put forth by Comrade Chen Yun: "The scale of construction must accord with the capability of the country," uphold the principle of seeking truth from facts, and carry out work according to our capability. We must unify our thinking and be clear-headed in two aspects: First, we must clearly estimate the capability of our country. Ours is a developing socialist country, with a huge population and weak foundation. On the one hand, huge population means big consumption; on the other hand, both the economy and technology of our country are still relatively backward. The situation over the past few years has shown that annual national revenue on the average increased by about 30 billion yuan and a considerable amount of this figure is used as basic living expenses for the 1 billion population, while the amount that can be accumulated for economic construction is limited. The amount of commodity grain that can be supplied is also relatively small, with little more than 100 billion jin a year. This 100 billion jin of grain is not quite enough for a non-agricultural and industrial population of 170 million. Such conditions of our basic national strength tell us that with regard to the investments in capital construction we must not be impatient, nor can the investments be made excessively. The measures taken to improve people's living standard should also be gradual. Second, we must clear-headedly estimate our economic situation. Even under excellent situations, we must understand that there exist some bad symptoms in our economy. An urgent task at present is that our capital construction is too excessive and it must be strictly controlled. But both the higher and lower departments must be unanimous in this aspect.

/Second, "coordinate all the activities across the country."/ Socialism practices planned economy and its superiority lies in centralization. Practice has proved that in carrying out construction it is necessary to properly implement centralization. Major undertakings can be fulfilled only under centralized leadership and with concentrated strength. If projects are too dispersed and each carries out its own business, nothing can be accomplished and we will cause serious waste. In order to save time and to a good job in key projects, it is necessary to "coordinate all the activities across the country." Measures must be taken to realize comprehensive balance. The departments that are responsible for carrying out planned economy comprehensively must have a sense of responsibility for the state and the people, they must make unified arrangements according to need and feasibility and do a good job in checking and approving construction projects; no units and individuals have the right to define capital construction projects. We must resolutely implement the related rules [words indistinct] defined by the State Council; all regions and departments must get approvals from higher departments before they take measures to breach the planning of the investments in fixed assets or they will be punished on the ground of violating discipline. When measures are being taken to strictly control the volume of investments in capital construction, it is also necessary to properly readjust the orientation of investments, that is to say, it is necessary to "protect the two important points and discard the unimportant."

One point is to protect key construction projects such as energy and communications and the other is to protect the technical reform of the existing enterprises; the projects that are not needed by the whole situation, ordinary processing industry, and the projects that are not included in planning must be curtailed. Protection must be coupled with discard and without key projects there will be no policy. Therefore, it is demanded that all regions and departments must consider questions from the point of macroscopic economy, consciously implement the state unified planning and foster the thinking of "taking the situation of the whole country into account."

/Third, properly concentrate financial power and material power so as to guarantee key projects./ At the present stage, it is necessary to proceed from the whole situation and follow the example in the 1950's when we were carrying out 156 projects and concentrated our strength on carrying out the construction of big backbone projects that were included in the Sixth Five-Year Plan, such as energy and transportation. It is only when we are able to complete key construction projects that we will be in a position to activate the whole national economy. In order to carry out key construction projects, it is necessary to do the following work: 1) Properly reform the structure of investments. The situation in which nonbudgeted investments account for an excessive proportion of the total capital construction investments must be changed. Various economic methods such as levying construction tax must be introduced so as to collect a certain amount of the funds from localities, departments, and enterprises that are used in ordinary industrial construction so as to add investments for state key construction projects. 2) Concentrate the necessary goods and materials. Dispersed finance brings about dispersed goods and materials. It is very common now for all units at various levels to have their own warehouses. Consequently, localities, departments, and enterprises have enormous stocks of goods in their hands. The amount of materials such as steel, timber, and cement that are under state unified distribution that are in the hands of localities, departments, and enterprises respectively make up 75 percent, 57 percent and 32 percent of total social resources. The management departments concerned must take effective measures to properly concentrate funds and goods and materials so as to guarantee the needs of key projects. 3) The entire country must support key construction projects. Before we are able to build a certain project, it is necessary to have support from various aspects in localities so as to form various favorable conditions. All the activities such as "hiking prices to exploit state property" in such aspects as acquisition of land by the state for key construction projects in localities must be resolutely stopped.

/Fourth, construction funds must be allocated strictly according to planning./ There were considerable breaches in the planning of the investments in capital construction last year and an important reason for this situation is that there was no unified management over self-raised funds. In order to control effectively the volume of investments in capital construction, it is imperative that construction banks fully display their roles of supervising. First, it is necessary to control funds in a unified way. All self-raised funds for capital construction must be deposited in construction banks and these banks will control and supervise the use of the funds according to planning. The funds that are deposited in other banks can in no way be used by any unit for capital construction.

Second, strengthen planning and supervision. All the allocation and the loans that are handled by construction banks must be strictly handled according to investment planning for capital construction that is approved by the state; the banks will also supervise the orientation in the use of the fund. Construction banks at various levels must refuse to allocate and give loans to the projects that have breached state investment planning and particularly the capital construction projects that are excluded from planning and have not been approved.

/Fifth, strengthen management over capital construction./ At present, a number of key construction projects do not follow orders about capital construction. Without good preparation, the projects have been hastily carried out, the planning has been amended again and again, and investments have been added, only to cause serious waste. In order to change this situation and make better investment achievements, it is necessary to do well the following links.

First, conscientiously carry out feasibility studies and technical and economic theoretical study. Experts of various departments concerned and actual workers must be organized to carry out feasibility studies in breadth and depth with regard to the planning of the distribution of construction projects on the basis of different trades and the characteristics of different projects; each project must be carried out well. It is much better to put more time and effort into this work than to amend the planning after the projects have been started.

Second, do a good job of pre-construction surveying and planning. It is necessary to follow the principle that no designing is done before surveying and no project can be started without planning. When design departments are studying the planning for the designs, they must use advanced technology that is in line with the national condition of our country, carry out more comparisons economically and select the best so that the projects will use advanced technology with economic rationality and economic efficiency. The economic departments concerned must strictly examine the sites and initial designs of the big and medium construction projects and the planning can be included in annual capital construction planning only after it is checked and approved. Third, implement the "five fixeds." That is fixed construction scale, fixed total investments, fixed construction period and fixed investment efficiency and fixed conditions for coordination with other units. The projects that are under construction must be checked again and the projects that accord with the requirements of the "five fixeds" can be approved but their investments must not breach the planning; the projects that do not accord with the "five fixeds" or that have been completed but have no guarantee of fuel, motive power, raw materials and transportation must be stopped. Fourth, strengthen supervision and checking. Investment planning for construction projects must be subject to regular checking so as to avoid waste. The projects that are characterized by chaotic management and that have breached investment planning and caused serious waste must bear the responsibility. It is imperative to resolutely check the evil practice of irresponsibly spending money.

/Sixth, set up an engineering responsibility system./ In the past, some construction projects were delayed for quite a long time and the efficiency of investments was low. And an important reason is that there is no responsibility system in

capital construction and this means that no matter whether the projects are good or not, they do not affect the interests of the leaders concerned. Therefore, in order to use well construction funds and goods and materials, it is imperative to form a responsibility system at both higher and lower levels. The state must guarantee such aspects as fund arrangement, goods distribution, and workers for carrying out the projects of the key construction that are included in planning so that there will be "[word indistinct] guarantees" for funds, raw materials, equipment, design, power for carrying out the projects and coordination. The management departments of key projects must be responsible in an overall way for the state. They must strive to analyze the requirement of the planning in such aspects as the contents of the construction, volume of investment, construction period and economic efficiency.

Management departments must set different requirements according to different projects for such surveying and designing units, construction units and constructors and it is also necessary to form various forms of work responsibility system and economic responsibility system. It is necessary to implement strict disciplines and carry out work according to rules and regulations; those that have done good work must be rewarded and those that have failed in their work must bear responsibility and be punished.

In addition, the volume of investments in fixed assets is also excessive; the problems of blindness and repetition in construction are quite serious and this situation is strongly related with current system and policies such as the distribution of investments, distribution of products, price and tax policy and financial subsidy. For example, repetition in the building of cigarette factories is closely related to the financial policy of "eating from different kitchens"; the building of cigarette factories will help localities open up tax resources; there are a number of wineries because they have to pay little tax and yet they are making big profits; localities are contending with each other in building textile mills because increases in the purchase of cotton price are subsidized by financial departments. Therefore, we must realistically strengthen the construction projects, concentrate the limited material power and financial power and use them in key construction projects that are closely related with the whole situation of the national economy. Active measures must also be taken to promote the reform of economic management system and reform and perfect the related economic system.

CSU: 4006/762

## DOMESTIC TRADE

### UNIMPEDED CHANNELS FOR SMALL-COMMODITIES CIRCULATION

Shanghai WEN HUI BAO in Chinese 18 Apr 83 p 1

[Report: "Unimpeded Channels of Small-Commodities Circulation in This Municipality"]

[Text] The small-commodities markets of this municipality have already formed supplementary channels of circulation. Up till the present, 15 locations of small-commodities markets have been developed all over the municipality. The varieties that are put on the markets have increased from some 30 to 40 in the past to more than 200 varieties now. Many commodities have been popularly sold in the 24 provinces, municipalities and autonomous regions throughout the country.

The development of small-commodities markets is the result of the municipal industrial and commercial administrative departments' effort to shatter the shackles of the "Leftist" thinking and follow the open-door policy. The municipal industrial and commercial administrative departments have stipulated that all the third-category industrial products that do not fulfill the state plan, the second-category industrial products that have fulfilled the state plan and are not procured by the state commerce, products of the individual handicraft households and products of the family sideline occupation are allowed to enter the small-commodities markets and rural trade fairs and to be sold there. The prices of the commodities can be determined by the quality. Negotiations for prices between buyer and seller are permitted and market prices can be fixed accordingly. Individual handicraft households and individual peddlers can carry out retail or wholesale sales, or both. Permission is granted to certified peddlers and cooperative commerce to transport the daily industrial products (of which this municipality has open supply) to be sold in other places. Permission is also granted to these people to procure third-category industrial products from other places to be sold in this municipality. The Fumin Street Small-Commodity Store, the largest in the municipality, handles 2 million yuan of business every month, 90 percent of which is wholesale exchange. It has become an important small-commodities distributing center for this municipality and the neighboring provinces and cities.

The varieties on the small-commodities market in Shanghai are a feast for the eyes, from clothing to decorations, from toys to household exhibits, just about everything you would expect to find. They have played the role of

making good omissions and deficiencies in supplying the market and satisfying the needs of the masses. Incomplete statistics show that, by the end of February this year, 4.98 million pieces of children's clothing, 700,000 sets of pillow cases, 2.54 million pieces of economy collars, 720,000 man-made leather bags, 1.72 million acrylic fiber collar rings and collar pieces, 85,000 blond dolls and other daily small metallurgical items, small general merchandise, small toys and small handicraft articles, have met the needs of a portion of the masses in the cities and rural areas.

Unimpeded channels of small-commodities circulation have also promoted production.

9335  
CSO: 4406/542

## DOMESTIC TRADE

### MAJOR CHANNEL OF COMMODITY CIRCULATION DISCUSSED

Beijing GUANGMING RIBAO in Chinese 8 May 83 p 4

[Article by Xue Xin [5641 5450]: "First Open Up the Major Channel--Start From 'Sales Difficulties' of Agricultural Sideline Products"]

[Text] In recent years, our country's rural areas have undergone great changes and the situation there is gratifying. With that came a series of new problems, which require the corresponding formulation of guiding principles and policies. Among the problems was a prominent problem, which was the "sales difficulties" of agricultural sideline products. The difficulties in the sales of grain, cotton, oil, beans, pigs, tangerines and tobacco fell in one place and rose in another. Emergencies were often reported. This has already aroused the general attention of the people.

Since the 3d Plenary Session of the 11th Central Committee, with the implementation of the various economic policies in the countryside, commodity production developed so fast that it was beyond the people's expectations. Compared to 1978, in 1982, the total amount of procurement of agricultural sideline products increased from 55.79 billion yuan to over 100 billion yuan, which was a twofold increase (included in that was the factor of the rise in prices). The sales of meat, poultry and eggs on the market increased 68 percent in 1982 compared to 1978. The production of oil-bearing products doubled and redoubled, and the supplies of edible vegetable oil to domestic markets were assured. This showed that a fine situation of large-scale development of commodity production has appeared in the rural areas in our country. The rapid rise in the commodity rate of agricultural sideline products is unprecedented in the 30 some years since the founding of the nation. Regarding this situation, we ask that the people pay adequate attention to commodity production and attach importance to the role of circulation.

Engels said: "In the last instance, production is the decisive factor. But as soon as trade in products becomes independent of production proper, it follows a movement of its own, which, while governed as a whole by that of production, still in particulars and within this general dependence again follows laws of its own inherent in the nature of this new factor; this movement has phases of its own and in its turn reacts on the movement of production." ("Selected Works of Marx and Engels," Vol 4. p 481) At present, the channel of circulation is held up and a condition of "sales difficulty" has arisen. This

sharply illustrated the negative role of commodity circulation to production. Thus, we must emphasize the opening up of the channel of circulation as a central link in promoting production and developing the economy. In particular, we must follow the "intrinsic laws" of socialist commodity circulation to seek out the obstruction points.

Viewing the rural commodity circulation channel as a whole, there are many reasons that bring about "sales difficulties." Looking at the "sales difficulty" of single-item products, there are many specifically complex factors. In sum, the major reasons are: First, the original commercial system of organization is unsuitable; second, the objective material conditions, that is, the original commercial network outlets, storage facilities and transportation measures, are unsuitable; third, the series of policies on procurement, sales, transportation and storage (such as the production and sales plan, price policies, policy on awards for sales, bank interests and economic management policies) are unsuitable. The so-called "unsuitable" means that, due to an inadequate evaluation of the new situation of large-scale development of commodity production and commodity exchange that has rapidly emerged in the rural areas, appropriate measures have not been taken in time; and due to a lack of research on the new characteristics of commodity exchange in our country's rural areas under the terms of socialism, a series of economic policies have not been made in time. Thus, to solve the obstruction of the channel of circulation, we must, on the one hand, conduct investigation and study on agricultural sideline products one by one and suit the remedy to the case, and, on the other, attach importance to studying the common problems and problems of regularity and formulate appropriate guiding principles and policies. We must, on the one hand, overcome the shortcomings of single and inflexible channels of circulation and give play to the role of diversified channels, and, on the other, open up the major channel first.

Statistics show that, in the total amount of social commodity retail in 1982, units under the all-member system of ownership accounted for 76.6 percent and units under the collective system of ownership accounted for 16.1 percent. In the total amount of social agricultural sideline products procurement in 1981, procurement by domestic trade departments accounted for 77.9 percent, procurement by foreign trade departments accounted for 2.2 percent and industrial and other departments, 10.5 percent, while purchases from peasants by nonagricultural residents only accounted for 9.4 percent. That is to say, the peasants sold most of the agricultural sideline products to state-run enterprises and supply and marketing cooperatives. Furthermore, there are procurement and sales network outlets of state-run commerce and supply and marketing cooperatives, planned distribution and appropriation network and communications and transportation systems that serve the above throughout the country. Obviously, to open up the channel of commodity circulation in the rural areas, undoubtedly we must first open up the major channel of the state-run commerce and supply and marketing cooperatives that are under the state planned arrangement and planned guidance. Only by opening up the major channel can we fundamentally solve the problem of "sales difficulty and purchase difficulty" of the peasants, can the socialist planned economy develop smoothly, and can we reliably guarantee the implementation of the principle of "the leading role of the planned economy and the supplementary role of market regulation."

Our country's original system of commerce was established step by step in the early days since the founding of the nation to meet the needs of the socialist transformation. It was much too controlled, as well as inflexibly controlled, in that the channel of commodity circulation was mostly divided in accordance with the administrative system of organization. Such a system of organization once played an important role in history. Under the condition when commodity supply was deficient and relied mainly on exclusive sales and planned distribution, the problem was not prominently exposed. After commodity production and commodity exchange had developed on a large scale, the contradictions became acute. Thus, the party Central Committee and the State Council decided that we must reform the system of commerce as soon as possible in accordance with the demands of the form of diversified economy, diversified channels of circulation and diversified management with few links. Only by establishing a unified market of socialist unification where commodity exchange is unblocked can we promote the development of the entire economic system.

At present, there are many good channels of commodity circulation in the rural areas: state-run commerce, the supply and marketing cooperatives, the trading warehouses, the commune and production brigade collective commerce, country fair trade and individual peddlers. To reform the system of organization for commodity circulation and to open up the channel of commodity circulation in the rural areas, we must give full play to the leading role of state-run commerce. At present, some major products that are related to the national economy and the people's livelihood, such as grain, oil, and meat are managed by state-run commerce. The wholesale business of industrial products is mostly in the hands of state-run commerce. With the development of commodity production in the rural areas, some large-scale agricultural sideline products have gradually established all kinds of specialized companies to handle procurement and sales in a coordinated process. This is also the inevitable trend of the specialization and socialization of production. At present, we must also emphasize this link of the supply and marketing cooperatives, give full play to its link between the city and the rural areas, and enable the supply and marketing cooperatives and state-run commerce to maintain their stable leading positions throughout the commodity exchange between the city and the rural areas.

The supply and marketing cooperative is suitable for the characteristics of scattered and small-scale commodity exchange in the rural areas at present, and is a fine form that is most realistic and applicable for the state to assist the peasants in doing business in a planned manner (and not in a blind manner). The supply and marketing cooperative has already enjoyed several decades of history. Its entire economic activity has been in the rural areas and its service targets have been the peasants. From the very beginning, it made its name by making the peasants the shareholders, and maintained flesh-and-blood ties with the peasants. The supply and marketing cooperative "serves in a dual capacity." On the one hand, it assumes the important role of the state procurement of agricultural sideline products. On the other hand, it manages the sales of products for the peasants. It is the sales entity of industrial products as well as the major supplier of the production and consumer materials needed by the peasants. It represents both the interests of the state and the interests of the local peasants.

The organizations of the supply and marketing cooperatives are spread out in the broad rural areas. In light of the experiences of the trial regions in the various localities, the supply and marketing cooperatives must first emphasize the following points in carrying out reforms: First, acknowledge and renew the process of making the peasants the shareholders, revive the previous fine tradition of the peasants running the cooperative, and strengthen the mass character organizationally, the democratic character in terms of management and the flexibility in doing business of the supply and marketing cooperative. Second, sign all kinds of production and sales contracts with the communes, production brigades and peasant households, implement the system of profit-sharing of sales and cross the river in the same boat with the peasants economically, so that everyone will profit from business together and suffer losses together. Third, give a free hand to the supply and marketing cooperative, enable it to expand the realm of business, launch negotiated procurement and sales and procurement and sales by agent. Fourth, in internal management, the supply and marketing cooperative must shatter the management method of "eating out of the same big pot," carry out independent accounting, shoulder its own profits and losses and implement the various forms of a system of responsibility in procurement and sales management on its staff members. Only by taking these few steps can it open up a new state. The core of these few items of reform is the second item, which is to launch joint operation by the peasants and commercial units. The other items only serve to create favorable conditions for this item. Only by opening up large-scale joint operation by the peasants and commercial units can we promote the further development of commodity production in the rural areas and bring the scattered and small-scale commodity production of the peasants into the orbit of planned and large-scale development.

To open up the major channel of commodity circulation in the rural areas, we still need a series of specific guiding principles and measures.

Correctly regulate and participate in the economic benefits of the various aspects of commodity production and exchange. Any agricultural sideline product that is produced and exchanged in the form of commodity will inevitably be governed by the law of value. While participating in any aspect of production and exchange, each kind of product, within a definite realm of purchase and sales prices, must proceed from the economic results of profit or loss in considering whether to produce more or produce less or to not produce at all, whether to sell or not to sell, and whether to do business or not to do business. Loss in any aspect of economic results will bring about obstruction to circulation. Thus, to open up the channel of circulation, we must examine the prices, profits and interest levels which we stipulate for the various agricultural sideline products and see if they are reasonable or not. If the economic results of the various aspects are appropriately taken care of, then commodity circulation will have its intrinsic mechanism, and the various aspects will try their best to enable the commodities to "circulate rapidly" since the faster the sales, the more profitable. In regulating economic results in the various aspects, we must first consider the interests of the place of production in order to promote the further development of commodity production. This means that we must make use of the role of such economic levers as prices, interests and transportation cost, to encourage more production

and more procurement so as to enable the place of sales to carry out allocation, transportation and sales early. The question now is, the place of production has become the warehouse of the place of sales. Large amounts of procured products have been stockpiled, which has brought about tension to the storage facilities which were already inadequate. If we procure more, store less, allocate and transport fast and sell fast (here we are not discussing the reasonable limits of commodity storage), we will greatly reduce the condition of "sales difficulty."

Use planning to overcome blindness. At present, there is an obvious contradiction in commodity production and commodity exchange in the rural areas in our country, and that is the contradiction between the planned and large-scale procurement, sales, allocation and transportation of agricultural sideline products by the state and the scattered, small-scale and considerably blind commodity production by the peasants. A considerable part of the problem of "sales difficulty" of agricultural sideline products stems from the above. On the one hand, state-run commerce and supply and marketing cooperatives must try their best to sign procurement and sales contracts with the peasants in order to gradually bring into the orbit of planned development the various agricultural sideline products that are under planned management. On the other hand, we must make use of the sensitive role of the economic levers to regulate the peasants' production to avoid blindness. Of course, to use planning to overcome blindness, we must raise the accuracy of planning. This will require the establishment of a thorough information system.

In light of the characteristics of the commodity itself, adopt corresponding flexible policies and measures. For instance, we shrud do so with perishable products such as fruits and aquatic products. Marx said: "Use values are perishable by nature. Hence, if they are not productively or individually consumed within a certain time, depending on what they are intended for, in other words, if they are not sold within a certain period, they spoil and lose with their use value the property of being vehicles of exchange value." "The more perishable a commodity and the sooner after its production it must therefore be consumed and hence sold, the more restricted is its capacity for removal from its place of production, the narrower therefore is the spatial sphere of its circulation, the more localized are the markets where it can be sold." ("Collected Works of Marx and Engels," Vol 24, pp 144-145) Thus, on the eve of putting fresh goods on the market, we must make proper preparations for fast procurement, fast transportation and fast sale. If the local supply and marketing cooperatives and state-run commerce are unable to handle the amount, we must then mobilize the local enterprises and collective units to sell on commission or even give a free hand to individuals to carry out transportation and sale.

We must mobilize strength in various aspects to speed up the establishment of commercial facilities and network outlets. In "Capital," Marx said: "During the interval between the process of production, from which it emerges, and the process of consumption, into which it enters, the product constitutes a commodity supply." "Whatever may be the social form of product supply, its preservation requires outlays for buildings, vessels, etc., which are facilities for storing the product; also for means of production and labor, more or less

of which must be expanded according to the nature of the product, in order to combat injurious influences. The more concentrated socially the supply is, the smaller relatively are the costs." ("Collected Works of Marx and Engels," Vol 24, pp 155, 162) Marx's analysis here still has practical guiding significance to our study of commodity circulation under the terms of socialism. In procuring, storing and selling commodities, we must, after all, have a place to put our goods. However, at present, our country's condition is far from meeting the needs of developing commodity circulation. If we do not change this condition as soon as possible, we will not be able to overcome the material difficulty of "purchase difficulty and sales difficulty."

Unimpeded transportation is another material prerequisite to solving "purchase difficulty and sales difficulty." Commodity circulation embodies movement in two aspects. One aspect is economic movement. This is when the peasant household, the collective, the supply and marketing cooperative, the state-run commerce and other units and individuals who take part in the procurement and sales activities of agricultural sideline products carry out selling and buying by way of money, which leads to a change in the mode of value of commodities, that is to say, the change from the mode of commodities to the mode of money and vice versa. Another movement is when the commodity, as a material object, moves from the seller to the buyer and from place A to place B, its position moves in space. This movement not only requires storage facility for the goods but requires unimpeded transportation. The more commodities are transported and the faster they are transported, the higher the turnover rate of the use of storage facilities and the higher the sales. Only through rapid sales can we promote more production, more procurement, rapid allocation and transportation, and enable the channel of circulation to remain unblocked and further speed up the circulation of commodities.

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CSO: 4006/517

FOREIGN TRADE

NORWEGIAN FIRM IN JOINT VENTURE FOR OFFSHORE OIL SHIPS

Oslo AFTENPOSTEN in Norwegian 6 Aug 83 p 16

[Article by Cecilie Norland]

[Text] Idle Norwegian standby tonnage will probably be employed to develop the Chinese continental shelf. On Friday the Nordenfjeldske Steamship Company and the Vartdal Fishery Company entered into an agreement of principle with the Chinese state company, China Nanhai Oil Joint Services Corp., on the establishment of a joint Norwegian-Chinese shipping firm in Kanton No. 1 in China. The Norwegian companies will contribute know-how, technology and training and the new shipping firm will charter or build special standby ships for the Chinese continental shelf.

The new shipping firm will offer standby and lifesaving services to operators on the Chinese continental shelf. "It would be natural to use existing Norwegian boats, especially since we have good standby tonnage available. Special vessels will probably be built in the long run, but it is unlikely that they would be built in Norway," said Kare M. Gisvold, director of the Nordenfjeldske firm. Probable deliveries from Norwegian companies will be limited to equipment packages and engineering services.

The agreement will be in effect for 8 to 10 years to start with and will involve a considerable number of vessels. "The purely economic importance of the agreement will depend on activity on the Chinese continental shelf. But this agreement is the introduction to a cooperation with the Chinese, which we hope can be expanded and further developed," director Gisvold said. The cooperating Norwegian partners have been negotiating with the Chinese since December 1982. Implementation of cooperation, building up a joint organization and chartering vessels will be accomplished in the fall of 1983, so that everything will be ready for the extensive activity that is expected on the Chinese shelf in 1984.

"The efforts of the Norwegian authorities to establish contact and communications between Norway and China have made a strong contribution toward creating the good will and the contacts that are necessary in order to get into a negotiating position with the Chinese at all. Contacts with the

Chinese were originally established through the brokerage firm of Olson & Wright in Oslo and Golden Light Enterprises in Guangzhou," Gisvold disclosed.

The Norwegian companies' Chinese partners in the cooperation have been in Norway for a week to look at the Norwegian oil activity.

Captain Steinar Gudmundset, who runs his own consultant firm in Alesund, has assisted as a consultant during the entire effort and has been hired to follow up implementation of the agreement.

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CSO: 3639/157

## FOREIGN TRADE

### CHEN MUHUA ON PROSPECTS FOR SINO-FRENCH TRADE

Beijing JINGJI RIBAO in Chinese 4 May 83 p 1

[Article by Chen Muhua, member of the State Council and concurrently minister of the Ministry of Foreign Economic Relations and Trade: "Broad Prospects for Sino-French Economic Relations and Trade"]

[Text] Although China and France are situated in the continents of Asia and Europe respectively and are far from each other in distance, the friendly feelings between the peoples of the two countries goes back to ancient times and the commercial intercourse between the two parties also enjoys a long history. In 1964, our two countries established diplomatic relations with each other. This opened up broad prospects for the friendly intercourse between the two countries in various aspects.

We are happy to see that, in recent years, our two countries have continued to improve our relationship in such aspects as politics, science and technology, and culture, continued to improve the friendship between the people and correspondingly developed the economic relations and trade between the two countries. Gratifying results have been obtained. For example, in 1982, the volume of trade between our two countries was seven times more than that of 1964. In the aspect of economic and technological cooperation, the exchange between China and France is increasing day by day and the realm of involvement is becoming broader and broader. From aviation, electricity, petroleum, coal excavation and electronics technology to brewing and cuisines using grape wine, there were manifold ways and means, such as import of technology and equipment, complementary trade, processing of imported materials, cooperative production and joint investment in trade. Of course, we are not satisfied with this. This is because, in light of the friendly relations between our two countries and the existing potentials on either party, there are broad prospects for development. The further development of the trade relations and economic cooperation between us is beneficial to strengthening the friendly relations between us and is entirely in accordance with the interests of the peoples of our two countries. I believe that, under the common effort of both parties, the economic relations and trade between our two countries will develop still further.

China is a developing socialist country. Our strategic goal of economic construction is to realize the modernization of industry, agriculture, national

defense and science and technology by the end of this century. At present, our country's national economy has already embarked on the healthy path of steady development. The people of our country are abiding by the strategic principle that was defined at the 12th CPC National Congress convened not long ago and are exerting themselves in the struggle to create a new situation for our country's socialist modernization. I believe that the continuous development of our country's national economy will create even more favorable conditions for promoting the economic cooperation and trade relations between China and France, and open up even brighter prospects for the steady development in Sino-French economic relations and trade.

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CSO: 4006/542

## LABOR AND WAGES

### JINGJI GUANLI DISCUSSES LABOR CONTRACT SYSTEM 'PROBLEMS'

HK230901 Beijing JINGJI GUANLI in Chinese No 7, 5 Jul 83 pp 17-20

[Article by Huang Shilin [7806 1102 2651]: "Several Problems To Be Solved in the Implementation of Labor Contract System"]

[Text] In order to eliminate the maladies of "the iron rice bowl" and "everyone eating from the same big pot" existing in our present labor system, a series of experiments has been developed in the labor contract system, in Shanghai, Beijing, Guangxi, Henan, Anhui, Jiangsu, Ganqu, and Heilongjiang. Up until now, 160,000 staff members and workers have tried out this system, and marked results have been achieved. But certain problems exist in practice: The first is a lack of conceptual clarity, such that the labor contract and the labor task contract are confused, and it is not clear what sort of relations exist between "contract workers" and the labor contract system; the second is a lack of understanding of why the labor contract system must be implemented; and there are also some people who equate the labor contract system in our country with the capitalist labor contract system. If the above questions remain unsolved, they are bound to cause difficulties and resistance to the implementation and further promotion of the labor contract system, and it is therefore necessary to clarify them from a theoretical point of view.

#### 1. The Labor Contract System Is Different From Labor Task Contracts and 'Contract Workers'

A labor contract is also a type of economic contract, and therefore possesses the normal characteristics of an economic contract; that is, both contracting parties are of equal status, and draw up a certain agreement voluntarily and according to the law; once this agreement is established, it creates a relationship involving certain rights and duties between both sides. In addition, the labor contract has its own characteristics. It consists of an agreement on socialist labor relations drawn up between the administration of units like enterprises, institutions, organs, and groups on the one hand, and laborers on the other. According to the agreement, the laborer becomes a part of the unit's staff and workers, undertakes a certain type of work and abides by the internal labor regulations of the unit; while the unit issues wages according to the quantity and quality of labor, and guarantees other labor conditions stipulated by labor laws and drawn up in the agreement between the unit and the worker.

In practice, it is very easy for people to confuse the labor contract with the labor task contract. For example, after a labor service company signs a contract with an employing unit, the labor service company sends a certain number of workers to the employing unit to engage in a certain task, after which the laborers return to the labor service company. Many people call a contract drawn up under these conditions a labor contract, but in fact this is incorrect.

Labor contracts and labor task contracts have different natures and different spheres of application. Their differences may be expressed in the following:

1) The laws of their application are different. The labor contract is regulated by the labor laws; while the labor task contract is regulated according to the civil law or economic law; 2) The subjects of the contracts are different. The parties involved in a labor contract must consist of a unit on the one hand, and an individual worker (or a number of workers) on the other; whereas the parties involved in a labor task contract may be at the same time or respectively members of the public or units; 3) The relations between the parties are different. After a labor contract is signed, the laborer involved must enter the unit concerned, become a member of it, and enjoy the rights and undertake the duties of the staff members and workers in that unit; the relationship between the signatories is a labor relationship of mutual help (this, along with 2) above, represents the most basic difference between the labor contract and other contracts); once a labor task contract is signed, the party providing the labor task by no means becomes a unit or individual member of the party accepting the labor task, but remains relatively independent, only enjoying and undertaking those rights and duties stipulated by the unit which sends the workers, and those stipulated in the contract; the relationship between the two parties consists in a labor task relationship of a property nature. In the example quoted above, the labor conditions of the laborers concerned are stipulated by the labor task contract drawn up by the labor service company and the employment unit, and the latter has no direct relationship with the laborers engaging in the labor task. 4) The substance of the contracts is different. The substance of a labor contract relates to labor rights and interests in the aspects of labor rewards, working and resting hours, labor safety and hygiene, insurance, welfare, and so on. The substance of this contract, then, consists primarily of rights and interests concerned with labor. In addition, the labor contract is exclusive; that is, each laborer can only sign a contract with one unit at any one time, and cannot simultaneously sign labor contracts with two or more units; labor task contracts, however, have no such limitations.

It is extremely important to be clear about the differences between labor contracts and labor task contracts. This is so not only because it solves the conceptual problem; if labor contracts are treated as labor task contracts, and regulated according to civil or economic law, then the labor force will be used as a commodity, and hired labor will be created, which is in basic violation of the nature of our socialist society.

Another question in need of clarification is that of how we should understand the word "contract worker" which has come up in the process of the trial implementation of the labor contract system. Many comrades consider that "contract work" is a form of employment by enterprises, along with regular work, temporary work, and alternate work as worker and peasant, the characteristic of which is that the worker works according to a contract, and his insurance and welfare are the responsibility of a special social department. Though this attitude is not without justification at present, from the point of view of all the implications of the labor contract system and the tendency of its development, this attitude is incomplete, and can easily give people the impression that the implementation of the labor contract system is merely a question of using part of the labor force of an enterprise as contract laborers, and nothing more than adding social insurance and welfare to what is basically temporary work; it will, therefore, be very easy for people to treat such workers as "second class citizens" like temporary workers, and find them hard to accept. In fact, according to the concept of a labor contract, it is an agreement on labor relations drawn up by the administration of a /unit/ and a /worker/ [words within slantlines denote underscoring], and is applicable to everyone, no matter whether it is an enterprise or an institution, an organ or a group, a worker or a cadre; no matter whether it involves a unit's previous regular workers, or new workers employed by the unit. All conditions and forms concerning labor contracts, along with stipulations regarding the methods and scope of their application, are generally designated as the labor contract system. So "contract labor" is only one basic part of the labor contract system, and does not represent its whole meaning.

Because conditions at present are not yet ripe, it is not appropriate to introduce the labor contract system overall, and therefore, in the first step of its implementation, it can be used when enterprises bring in new workers (and also when advertising for cadres. For example, when advertising for kindergarten teachers and accountants, some units in Anyang Prefecture, Henan Province, used the form of labor contracts); when some experience has been gained, the labor contract system may be broadened to include regular workers in all enterprises, institutes, organs, groups and other units. Once the labor contract system has become the main form of employment, there will be no distinction between regular work, casual work, and alternate agricultural and industrial work; all staff members and workers will carry out their work according to the stipulations of labor contracts, and the only difference will be in the duration of these contracts. Starting from this point, I propose that it would be better not to use the term "contract worker" but instead to substitute the term "labor contract system worker" or "contract system worker."

## 2. The Intrinsic Socialist Character of Our Country's Labor Contract System

The economic basis of the public ownership of the means of production, and the superstructure of the people's democratic dictatorship together form the essential attributes of our country's legal system, and the fundamental legislative basis for the labor contract system. Naturally, when setting out the labor contract system, it is necessary for us to use foreign law documents for reference, but this is by no means to say that our labor contract system can be equated with the capitalist labor contract system.

Essentially, our country's labor contract system is a socialist legal system. With the establishment of the public ownership of the means of production, the laboring people became the masters of the country, which basically eliminated the capitalist commodity-type buying and selling of labor. The relations between the parties to a labor contract are no longer those of hirer and hired, nor is a labor contract any longer a tool of forced labor and exploitation. With the signing of a labor contract, the laborer enters the employing unit, participates directly in its production, and work, and management, and creates the fruits of labor for the state and society. As to the unit which receives the laborer, it must provide for its staff members and workers all the necessary and possible conditions for work. These economic relations created according to a labor contract are established on the basis of the fundamentally identical interests of both parties; they are cooperative socialist relations. For this reason, we say that our labor contract system is in essence different from a capitalist labor contract system.

How to solve the problem of labor employment and that of insurance and welfare after the introduction of the labor contract system are the two questions which most concern the broad masses of laborers. The fact that after the introduction of the labor contract system the jobs of some people will not be as stable as those of regular workers, and that insurance and welfare will no longer be undertaken wholly by the unit, gives some people misgivings about the introduction of this system, and arouses in them doubts as to its socialist nature. This attitude is incorrect.

First, on the question of labor employment, the starting point for our introduction of the labor contract system is to let laborers move in accordance with the needs of production and work, not to drive some of the workers out of their units; to enliven the employment system, and to give workers a better chance to exercise their right to free choice of employment, not to limit the working rights of laborers; to expand the area of employment, and deploy and utilize the labor force more rationally, not to shrink the area of employment. It should be affirmed that after the "iron rice bowl" is broken, some workers, after their contracts have expired or been terminated, may find themselves in a temporary situation of "unemployment" between jobs. In this situation, the state can on the one hand introduce them to jobs through a social organ with special responsibility for this work, and on the other, it can create more job opportunities for them by assigning labor force programs and redistributing the labor force, doing its best to give them an unbroken supply of jobs. Even in the case of those laborers who find difficulty in gaining employment due to their labor attitude or poor working ability, the state will not abandon them. Through the social organs concerned, the state will organize them, conduct ideological education and technical training, improving their employment prospects, and at the same time helping them to choose appropriate jobs.

Second, the question of insurance and welfare. In capitalist countries, it goes without saying that social insurance and welfare is a part of the price of labor; looking at their actual conditions, though they introduced their systems a relatively long time ago, and they are, therefore, relatively complete, there

continue to exist many problems. For instance, in the United States at the moment, over half the unemployed are unable to draw relief funds, and even in some advanced West European capitalist countries which call themselves "welfare states," the minimum standard of living they use as a criterion for social welfare subsidies and relief funds is clearly on the low side, while the scope within which funds are issued is extremely narrow, so that many workers have nobody to care for them in cases of illness, age, injury, or disablement. As for our country, though we are by no means rich in material wealth, and our insurance and welfare lag behind the level of many developed countries, the state nevertheless does everything it can to give each laborer basic livelihood guarantees. This is as true now as it was in the past; after the introduction of the labor contract system, the state will continue to adopt all effective measures to ensure the implementation of this principle.

A tentative plan for solving the problem of insurance and welfare for contract system workers is to adopt the following measures: 1) The state may set up a special social insurance organ, or social insurance and welfare may be the responsibility of labor service companies; 2) a part of social insurance and welfare funds may be payed, respectively, by the state, the employing unit, and the individual laborer, with the employing unit paying by far the biggest part; 3) a perfect social welfare and insurance system may be established, enabling each laborer, while between jobs, to have livelihood guarantees and medical care; and to give pensions and relief funds to all those workers who have lost their ability to work; 4) the amount of insurance which a unit gives to a worker should be proportionate to his or her length of service in that particular unit, with more insurance funds given the longer the service; if the worker has worked in a unit for a relatively long time, and has served for a number of years, the unit should also give him a reward; 5) collective welfare facilities should be set up, so as to provide conditions beneficial to workers' housing, convalescence, rest, and recreation. With the further growth in our country's production forces, social insurance and welfare are bound to improve.

### 3. Some Jobs Which Must Be Done Well in the Implementation of the Labor Contract System

The introduction of the labor contract system is not the empty illusion of a certain person, nor a carbon copy of something foreign, but the inevitable product of the further development of the socialist economy in our country. Due to the protracted influence of "left" ideology, and some faults in our work, there exist the serious malpractices of the "iron rice bowl" and "everyone eating from the same big pot" in our labor system. Enterprises cannot increase or reduce their work force, or choose people on their merits, according to the needs of production and work; while individual workers cannot freely choose their jobs, or give play to their strong points; this situation is severely hindering the development of our national economy. Therefore, there is an objective need for us to reform this situation, and forge a new path in the employment system.

The labor contract system is not a new invention, but appeared in the early period following the founding of our country. Standard documents like the "temporary regulations concerning advertising for workers" published by the Labor Ministry in 1951, and the "bulletin on several questions involved in the work of redistribution of labor power" put out by the State Council in 1957, all contained certain clauses concerning the issue of labor contracts. Before the Cultural Revolution, the party and government had already come to realize that great problems were involved in "packaged" policies handed down from above, while Comrade Liu Shaoqi many times pointed out the need for reforming the employment system and implementing the labor contract system. But the 10 years of internal disorder made it impossible to realize this plan. Since the 3d Plenary Session of the 11th CPC Central Committee, the reform of the political and economic systems has become an important task, while the broad masses of people urgently desire reforms of the unbeneficial parts of the present labor system, thereby creating conditions favorable for the introduction of the labor contract system. Over 2 years of practice has given us strong evidence that the labor contract system is both feasible and highly necessary.

However, the labor contract system cannot possibly be introduced coercively purely by administrative orders. We must use our successful experience so far as a basis to make the broad masses of laborers and all the various units implement this system consciously and voluntarily, and this requires us in turn to create conditions in the following aspects:

1. Strengthen propaganda work concerning the contract labor system. This work must focus on imparting basic knowledge about the labor contract system, the essential nature of the system in our country, its motive role in the four modernizations, and its advantages to the collective and the individual laborer, making people aware of the difference in principle between the superiority of the socialist system and the "same big pot" and the "iron rice bowl," and thereby increasing their understanding of the necessity of reforming the labor system.
2. Adopt a series of measures to protect the interests of laborers. Apart from the employment, insurance and welfare work described above, it is also necessary to give attention to the following points:
  - A. Wages. Because workers under the labor contract system will work harder and produce more results, added to which they will have to provide their own labor insurance funds, their basic wage should therefore be higher than that of regular workers under the same conditions. In addition, it is necessary to set up floating wages and rewards so as to make the remuneration of labor contract workers genuinely commensurate with the amount of labor they provide.
  - B. Professional and technical training. Society and units must make great efforts to carry out all types of professional and technical training so as to improve the abilities of the broad masses of workers.

C. Political life. We must ensure that labor contract system workers fully exercise their rights to join the CPC and the CYL, take part in union activities and the management of their units, involve themselves in political life, be selected as progressive, and so on.

3. Expand enterprise autonomy, and strengthen the democratic management of enterprises. We must ensure that enterprises have the power to increase or cut the number of staff members and workers in their employ according to the real requirements of production and work, and to select people according to their merits; and we must also ensure that labor contract system workers fully enjoy their political and labor rights, and do not fall victim to illegal interference by unit administrations.

4. State administrative departments, unit management departments, and judicial organs must strengthen their supervision and management over labor contracts, promptly correcting any contracts which violate the laws and regulations concerned, and finding out and affixing the economic, administrative, and legal responsibility of those units or individuals who have seriously violated the regulations of the contracts.

5. Strengthen the work of labor service companies, making them responsible for the management, technical training, introduction to employment, self-help through production, and personnel awaiting employment, and for social insurance and welfare work.

CSO: 4006/762

HONG KONG MEDIA ON CHINA

ECONOMIST XU YI ON IMPACT OF 'READJUSTMENT'

Hong Kong CH'I-SHIH NIEN-TAI [THE SEVENTIES] in Chinese No 6, Jun 83 pp 74-78

[Article by Wen Shilang [5113 0577 6745]: "The Impact of 'Readjustment' Economist Xu Yi [6079 3015] and the Contention Between the 'Readjustment' and 'Reformist' Factions"]

[Text] Impact Greater Than Profile

Xu Yi, head of the Financial Research Institute of the Ministry of Finance, has been working in the financial system since the liberation. In the early 1950's, he was with the State Financial Commission under Chen Yun [7115 7189]. Since then, he has been working under the guidance of Li Fuchun [2621 1381 2504] and Li Xiannian [2621 0341 1819]. It is believed that it was after the Cultural Revolution that he turned to research work. During 1977 and 1978, when discussions on economic affairs were revived in China, he wrote a number of treatises on such topics as financial theories, economic readjustment, economic accounting, national economic planning and overall economic balance.

Insofar as his position and qualifications were concerned, Xu Yi was by no means outstanding among those engaged in the field of economics or among the economists in China. At home and abroad, he was much less highly regarded than the older economists such as Sun Yefang [1327 0396 2455], Xue Muqiao [5641 2550 2890], Yu Guangyuan [0060 0342 6678] and Xu Dixin [6079 3321 2450]. In view of their close relationship with those in the high leadership echelons, the views of Sun, Xue and Yu were more likely to gain the attention of the policymakers. Among the newer crop of economic experts, he is not as well known as Lin Guoguang [0491 0948 0342], newly appointed deputy director of the Academy of Social Sciences; Jiang Iwei [5592 0001 7279], director of the Industrial Economic Research Institute of the Academy of Social Sciences, whose "Discourse on the Departmental Interests of the Enterprises" is well known at home and abroad; He Jianzhang [0149 1696 4545], deputy director of the Economic Research Institute of the State Planning Commission, whose theories on commodity prices drew a great deal of attention even in the early 1930's; or Sun Shangqing [1327 1425 3237], deputy director of the Economic Research Institute of the Academy of Social Sciences, who has been actively promoting the socialist commercial commodities economy in recent years.

Domestically, Xu Yi's works have only appeared in publications within the financial system, but not in national first-rate comprehensive economic publications such as ECONOMIC RESEARCH and ECONOMIC MANAGEMENT, or publications of a theoretical nature put out by the party Central Committee such as RED FLAG. It appears that he is only a director of a research institute of an organization of the party Central Committee and that there are many other economic experts holding similar positions and possessing similar qualifications in the central and local governments.

However, in the actual process of decisionmaking of an economic nature, Xu Yi's influence far surpasses that of any of the above-mentioned economic experts. At least, since the momentous economic policy changes which have taken place following the 3d Plenum of the 11th party Central Committee (December 1978), the biggest turning point came about largely as a result of the efforts made by Xu Yi.

#### Financial System Born of the Tide of Reform

Since the publication of an article by Hu Qiaomu [5170 0829 2606] on the objective laws of economics in October 1978, the mainstream of opinion has been for the emancipation of the mind and the reform of the economic system. Aside from the few who have certain reservations as to the degree and the extent to which reforms should be brought about, most economic experts are more or less in favor of the overall reform of the economic system. Within economic circles, economic reforms, which were being made at a rapid pace, appeared to have become an approved policy for the economic development of China when Zhao Ziyang became prime minister on the heel of his achievements in Sichuan (economic reforms). Although the eight-character policy of readjustment, reform, reorganization and upgrading was proposed at a symposium of the party Central Committee in April 1979, the emphasis was in actual practice placed on reforms, as little was being done by the economic departments and units of the central and local governments in the areas of readjustment and reorganization. When the "Notification Regarding the Adoption of Measures for the Retention of Profits by the State Industrial Enterprises on a Trial Basis" drafted by the State Economic Commission and other departments was issued by the State Council in January 1980, economic reforms appeared to have gathered irresistible force all of a sudden.

While the tide of economic reform was in full flood, a group of workers in the economic field within the financial system and a number of economic experts headed by Xu Yi were the first to advocate in an organized manner for the theory of reform centered around readjustment, in opposition to the proposal for the overall reform of the economic system.

First, two meetings within the financial system were held in 1979 (an economic accounting and economic reform symposium was held in Harbin in September by the Financial, Trade and Economic Research Institute of the Academy of Social Sciences and the third national symposium on financial theories was held in December). As a result of the dissenting opinions on the subject of reform expressed by those within the financial system, a blow was dealt the economic proposals based on the proposition that all possible reforms should be brought

about in the first half of 1980. The most crucial blow was struck by the heated attack against the deficit budget policy of the time unleashed at the fifth national symposium on financial theories held in October 1980 when such people as Jiang Iwei were mentioned by name and lambasted for their biased views favoring the departmental interests of the enterprises (the central idea in the reform of the economic system) and which triggered a series of important meetings and symposiums. A national conference of the provincial governors, mayors and chairmen of the autonomous regions and a national planning conference were held in November, a party Central Committee working conference was held in December, and a symposium on the theories of the overall balance of the national economy was held by the Economic Research Institute of the State Planning Commission, the Research Institute of the Academy of Social Sciences and the Economic Research Institute of the Liaoning Provincial Planning Commission in Shenyang in January 1981. The outcome was that on 25 February Yao Yilin [1201 0181 2651], deputy prime minister and concurrently chairman of the State Planning Commission, pointed out in his report on the "Readjustment of the Plan for the National Economy and the Revenues and Expenditures of the State in 1981" "the necessity of further readjusting the economy to meet the potential crisis posed by the economic situation" and the need "to further curtail investments in capital construction" and "to strengthen centralization and unification." From the date the report was made public up to early 1983, the general policy based primarily on readjustment was established as the economic policy of China. It was during 1982 that the policy of "putting major emphasis on the readjustment of plans and secondary emphasis on market adjustments" became even more clearly defined.

During the series of conferences between 1979 and 1981 and in the course of the debate in and out of the conferences on the comparative merits and urgency between reform and readjustment, Xu Yi was in the vanguard among those who favored readjustment. It was his views which formed the basis for the stand against reforms taken by the Financial Research Institute of the Ministry of Finance which was under his leadership during 1979 and 1980. At the working conference of the party Central Committee in December 1980, his report, sharply critical of the deficit budget and the departmentalism of the enterprises, was circulated among the participants. It is believed that it was this report which formed the basis for the decision made by the working conference of the party Central Committee to reiterate its emphasis on readjustment.

#### "Reform Faction" Versus "Readjustment Faction"

It cannot, of course, be said that Xu Yi alone was responsible for the turnaround of economic policy toward the end of 1980 and the early part of 1981. The fact, however, remains that if he had not stood out as a representative of the Ministry of Finance and the entire financial system and that if he had not had the support of Li Xiannian and the approval of Chen Yun, his views would not so easily have caught the attention of the highest leadership levels. Furthermore, if his views had not had the support of Xue Muqiao, Xu Dixin, the Economic Research Institute of the State Planning Commission and the Economic Research Institute of the Academy of Social Sciences, he would not have prevailed so easily over those economic experts who favored reform. We should

not, however, underestimate Xu Yi on his own merits. The influence he exerted is derived not only from the support of the organization and the fact that he had a following within financial circles. More important still, he had a set of theoretical and policy ideas that could stand up against those of the reformist economic experts. Compared to the economists of the State Planning Commission system such as Sun Yefang and Xue Muqiao, Xu Yi's views on placing emphasis on and giving top priority to readjustment were more comprehensive and systematic. Under such circumstances, the most that such people as Sun, Xue, Fang Weizhong [2075 4850 0022], deputy chairman of the State Planning Commission, and Liu Suinian [2692 7151 1628] could do was to hold on to their reformist stand and to offer certain dissenting views without being able to come up with an overall argument against readjustment. On the other hand, by dissecting the problem posed by the reformist school of thought from the theoretical and policy points of view and by presenting his own views in favor of readjustment since 1979, Xu Yi was finally able to prevail upon those on the leadership level to give their approval to readjustment as opposed to reform.

According to Xu Yi, there are two different views on the subject of the economy in China:

The first view holds that it is the defects of the planned economy system itself which are responsible for the deplorable state of the national economy. The national economy can be developed by putting major emphasis on commodities economies, and by resorting to the law of values as a basis and by using market adjustments as a means to accomplish that purpose. It can be dealt with by taking a firm hold on commodities economies, by using the law of values as a means to lead the ox by the halter, by developing the market economy and by using the market as a means of adjustment. Another view holds that the setbacks in the past were caused by the sabotaging or obstructing of the planned readjustments. What is called for is firm adherence to planned readjustments, proper readjustment of the ratio between accumulation and consumption and the ratio between a series of relationships, placing major emphasis on the ratio of readjustment, use of basic socialist economic laws and the principle of reproduction of Karl Marx as a basis and acceptance of the material benefits principle as justification for using, under the guidance of the socialist market, the free market as a supplement to planning. We must have the "ox" of the law of values under control and use it to serve our purpose. The reform of the system, which must go hand in hand with the consolidation of the structure of production, can only be successfully implemented when the structure of production is placed on a sound footing.<sup>1</sup>

Simply stated, the first view may be referred to as the "reform theory" or that of the "reform faction," while the second view may be called the "readjustment theory" or that of the "readjustment faction." (Naturally, readjustment does not completely preclude the need for reform and the readjustment theory cannot be lumped together with the "leftist" economic views espoused by the so-called "cultural reform clique" or the "petroleum clique.") It is Xu Yi who is the most prominent economic expert of the "readjustment faction."

### Basic Theoretical Understanding of Xu Yi

Xu Yi's theory on readjustment may be traced to his understanding of the nature of the socialist economy. In this respect, he stands out as markedly traditionalist and conservative compared to the reformist economic experts such as Sun Yefang and Xue Muqiao.

Xu Yi's understanding of the basic theories does not by any means exceed those advocated by Stalin in his book "Problems of the Socialist Economy in the Soviet Union" published in 1953. He is in agreement with Stalin's view on the three economic laws which operate during the socialist phase. The three laws are as follows:

1. The basic socialist economic law. By that is meant "the use of this law, upon the achievement of a high technical standard, to bring about a continuous increase and a continuous improvement of socialist production to ensure the satisfaction of the increasing material and cultural needs of society to the highest possible extent. Strictly speaking, this is not an economic law so much as an objective or a mission of a socialist society or a communist power."
2. The law governing the planned and proportionate development of the national economy. It is Xu Yi's understanding that "this law requires that any society (including socialist societies) must, according to its productive capability at the time, the level of its development and the needs of society arising from its productive capability, allocate socialist labor proportionately to the various production departments."<sup>2</sup> That is to say, all the departments and links involved with the national economy must be developed on the basis of an overall balance and according to a certain ratio.
3. The law of values. Xu Yi did not categorically state that the law of values in a socialist economy had the effect of bringing about readjustments or that it exerted an influence on readjustments. On the one hand, he said, "As a matter of fact, the law of values has the effect of bringing about readjustments, so that it is wrong to say that it does not have such an effect." On the other hand, he also said, "There are those opposed to Stalin's views who claim that Stalin had spoken of the need to limit the effect of the law of values. I consider Stalin a Marxist insofar as this question is concerned.... Is it permissible to let the law of values exert its influence without restraint? My answer is 'no.' Socialist planning is opposed to anarchy and planning calls for restrictions and adjustments."<sup>3</sup> His views are in fact similar to Stalin's, except that they are more flexible and that they place greater emphasis on the law of values.

It is the belief of Xu Yi that there are two aspects to the compliance with the basic socialist economic laws as a means to promote socialist economic development. First is the adjustment of the ownership structure. Within the public ownership system, the adjustment of the ownership structure involves the adjustment of the person-to-person relationship and that of distribution. Second, it calls for the distribution of socialist labor according to a plan and the establishment of a production structure according to a ratio. In

other words, it is necessary to resort to the law of values to alter the production relationship and to use it to develop production power according to a plan and a certain ratio. The work in these two areas is interrelated and mutually restrictive. However, Xu Yi considers the latter as being decisive and deserving of top priority. It is for this reason that he considers the socialist economy as first and foremost a planned economy that requires planned readjustments as a mainstay and market readjustments (readjustments spontaneously brought about by the law of values) as a subsidiary measure which must also be taken into account in planning.

It is the belief of Xu Yi that, in view of this special feature of the socialist economy, the most basic guiding principle in economic operations is the achievement of an overall balance which is basic to the implementation of planned adjustments. By overall balance is meant, first, a balance in the ratio of the various production units and, second, on the basis of the achievement of a balance of the units, a balance in the process of reproduction in society, that is, an overall balance among production, distribution, circulation and consumption.<sup>4</sup> The two types of overall balance involve in actual practice the relationship between the two major areas of the means of production and the production of consumer goods, the relationship among agriculture, light industries and heavy industries, the relationship between production and consumption and the relationship between the distribution of funds and the supply of materials.

#### "Large Plans and Small Freedoms"

In order to achieve an overall balance, Xu Yi advanced several concrete guiding principles which must be observed in the administration of the economy:

First, there must be a correlation between the scale of construction and the capability of the nation. In other words, economic construction must be within the financial and material means of the nation.

Second, there must be a balance between financial receipts and expenditures, between credit loan receipts and expenditures, between material receipts and expenditures, between foreign exchange receipts and expenditures and a balance among them all. That is to say, there must be an overall balance in financial receipts and expenditures, including budgetary receipts and expenditures, credit loan receipts and expenditures and funds available outside the budget and the use of foreign capital. Briefly stated, deficit spending and inflationary measures should not be used as a means to stimulate production and consumption.

Third, it is necessary to strengthen the economic accounting of the national economy and that of the enterprises. The former calls for a long-term and short-term overall balance in the national economy, while the latter calls for an overall balance of the various economic operations within the enterprises. Major emphasis is to be placed on the accounting, supervision and control of the actual economic results and achievements.

These three principles may also be summarized as "large plans and small freedoms," that is, the granting of the necessary autonomous powers to the localities and enterprises in their production operations under the guidance of the centralized planning of the state.

The above-mentioned theses, whether from the theoretical point of view or that of the specific working principles, were by and large established in the 1950's when Chen Yun was responsible for making decisions in the economic area. Xu Yi himself admitted that he had merely enlarged upon and further developed the proposals made by Chen Yun at the time in his "The Theory on the Power of the State" and "The Theory of the Three Major Balances" without having added anything new.

In actual fact, the theories and principles advanced by Chen Yun at the time embraced the sum of the experiences and the arguments of many economic experts. Between 1979 and 1981, Chen Yun himself lent his support to the reform of the system. That Xu Yi was able to prevail over all dissenting views, to reaffirm those theories and principles put forward at the time and to tie them in with the problem of economic development in recent years has given new meaning to such theories and principles. By using these theories and principles to attack the reformist school of thought and its policy recommendations (mainly "the financial deficit is not to be feared" argument) and to use them as a theoretical premise to support his own views on readjustment, he can be said to have gone beyond Chen Yun and to have established a body of theories of his own.

#### Offensive Against Reform Theories

Xu Yi began to attack the views favoring reforms as early as 1970. In view of the fact that the economy was being developed relatively smoothly at the time and that difficulties of a structural nature had not as yet presented themselves, Xu Yi's criticism was extremely mild and the attitude he assumed was by no means adamant. "In the reform system," he said, "the various socialist economic laws must be observed, especially the law governing the development of the economy according to a plan and in proper proportions." Specifically, he was dubious as to the feasibility of the reform of enlarging the autonomous powers of the enterprises. "What will be the result," he asked, "if the hundreds of thousands of enterprises throughout the nation were permitted to have their own ways? Where should emphasis be placed in the reform of our system?" "We say," he countered, "that it is necessary to bring about reforms and that it is permissible to propose various tentative plans. However, reforms must be brought about under proper guidance and in a stable and practical manner that is in line with local conditions. In matters affecting the overall situation, it is necessary to strengthen centralized leadership and not to permit the enterprises to go their separate ways and to do as they please."<sup>5</sup>

In 1980, when the continual expansion of the scale of capital construction led to huge deficits in the national budget, a bitter attack was unleashed by Xu Yi against the reform theory. He held the view that the financial and economic situation of the state was plagued by the following major problems:

1. The size of the deficit. The deficit was 17 billion yuan in 1979 and 8 billion yuan in 1980, while the budgetary estimate of the deficit was 5 billion yuan in 1981. "In view of the accumulation of deficits," he said, "large amounts of currency have to be issued year after year. The situation created by the excess of purchasing power in the market over the available supply of goods is certain to become so increasingly acute that it is liable to trigger a chain reaction."<sup>6</sup> That is to say, the inflationary trend caused by deficit spending has begun to create a sense of unease among the people.

2. The scale of capital construction has gone out of control. Although the party Central Committee has repeatedly emphasized the need for readjustment and for a reduction in the scale of capital construction, the situation, characterized by a decrease here and an increase there, has gone out of control. As the state funds are being depleted, the utilization of foreign capital is increased; as revenues are being reduced, bank loans are increased; as the amount of expenditure within the budget is being reduced, the amount of expenditure outside the budget is increased; as investment in capital construction is being reduced, funds for the various technical projects (unearthing of potentials, reforms and alterations) are increased. The result is that "Not only is there a lack of an overall balance and planned guidance, but everybody minds only his own stall and looks after his own interests in a scramble to achieve his own ends without giving any thought to the availability of energy and raw material resources. Their preoccupation with the expansion of their productive power has resulted in a widening imbalance between the capability of the state and the scale of the construction projects so that more and more is being invested with less and less results."<sup>6</sup>

3. The scale of the construction projects is in excess of the capability of the state, so that capital construction investments and funds allocated for the unearthing of potentials, reforms and alterations are not backed up by an adequate amount of material resources.

#### **"Adjustments Must Be Made on an Overall Basis"**

It is Xu Yi's belief that in dealing with these problems, it is vitally important to rectify the ratio in the national economy, to readjust the economic structure and to place major emphasis on readjustment. On the one hand, it is necessary to cut back in a resolute manner the scale of capital construction and to readjust the structure of investment and, on the other, to put in order the existing enterprises, to make a serious effort to increase production, to economize and to increase income and reduce expenditures. That is to say, it is necessary to reduce financial deficits by reducing expenditures, by exercising highly centralized control to put the existing enterprises in good working order and by readjusting investments in the national economy. The latter is directly aimed against the reform of enlarging the autonomous powers of the enterprises.

"There are those," Xu Yi said, "who, overly concerning themselves with the departmental interests of the enterprises, speak out in favor of separating the enterprises from national planning and who are opposed to administrative interference and the readjustment of plans, claiming that their position

represents that of the socialist ownership system. Are there no problems in countries which enforce the socialist ownership system? Such problems as the overextension of the capital construction battleline and the instability of the economy still remain. Should we follow the same path? The answer is 'no.'

"Then, there are those who claim that since our socialist economy is a commercial commodities economy, the enterprises should be given independent powers in the production of commercial commodities. This view is, in my opinion, mistaken. Our socialist economy should be a commercial commodities economy subject to planned readjustments and our enterprises should operate separately under centralized planning. Control must be exercised at different levels under centralized leadership.... The problem is that some comrades merely concern themselves with the departmental interests of the enterprises and market adjustments, giving no thought to centralized leadership and planning. The adoption of the practice of 'eating out of separate pots' and the granting of independence to the enterprises have, for instance, created the problems of encouraging production and construction in a blind manner and of duplicating construction projects."<sup>6</sup>

It is Xu Yi's belief that it is a mistake to talk only about the enlargement of the autonomous powers of the enterprises and reforms in market adjustments in that it would exacerbate the shortcomings in the economic structure and lead to a greater imbalance. In his article "Discussion of Certain Problems Subject to Debate in Our Financial and Economic Operations" published in 1981, he wrote, "Can the market mechanism eliminate the shortcomings of the economic structure? Experience over the past 2 years has proved that it cannot. Putting major emphasis on reform to the exclusion of readjustment and planning has resulted in the simultaneous engagement in six battlelines in capital construction and an escalating duplication of projects of construction and production.... Under such circumstances, capital construction would get out of control and it would not be possible to improve the livelihood of the people."

It was for this reason that Xu Yi emphatically stated that "readjustment, being the key and the heart of the matter, is pivotal to the entire situation."

#### Reforms Based on Planning

While opposed to the argument for reform, Xu Yi was not in favor of restoring the administrative planning system marked by a high degree of centralization at the time of the 1st Five-Year Plan in 1956. Rather, he favors readjustments as a first step and the reform of the economic system while readjustments are being or after they have been made. The reform he has in mind differs substantially from that advocated by the reformists. The formula for reform he favors is of an overall character:

1. He favors a program for the development of the different areas in the different sectors of the economic system of the nation such as the industrial and agricultural structure and the commercial and the supply and sales systems after medium- and long-term planning has been made. He denounced the former administrative planning system as "being mired in the administrative leadership level without the support of the experts and the masses," stating that "truly

"scientific planning" must be divorced from the long-time practice of deferring to the wishes of the minority and warning that the development of the national economy would otherwise be pursued in a semiblind manner as in the past.

2. The establishment of specialized and diversified head companies for the various trades and businesses. "By that," he said, "is meant the establishment of the various departments exercising direct leadership over production and construction in the manner of the enterprises on the principle of specialization and diversification so that they may develop into head companies which strive for economic efficiency and which are ready to assume economic responsibility and responsibility for independent accounting of profits and losses. In their production and operations, all the basic-level enterprises in the various trades and businesses are to be placed under the direction of their respective head companies which, in principle, differ by their very nature from administrative management bodies in that they have to assume economic responsibility for their operations and that they are under the pressure of objective circumstances to go about their business in accordance with economic laws."

3. After the responsibility for operations and administration in the production area has been assigned to the head companies of the various trades and businesses, the administrative departments are to concern themselves with the exercise of leadership and planning in accordance with objective economic laws. For example, they are, under the guidance of the master plan of the state, to study the proper direction which the development of the various trades and businesses should take and what technical policy to adopt to devise various plans for the economic development of their respective areas and to use the economic lever as a means to coordinate and adjust the relationship among the various quarters, to deal with new contradictions and problems and to exercise the necessary administrative intervention.

4. The use of experts to prevent the enterprises and administrative departments from taking action which is at variance with economic laws. Xu Yi called that "reimposition of restraint" or "scrutinization." That is to say, all technical measures must be renewed and remolded and all capital construction projects must be examined and audited by the economic research or economic consultative organizations. Unless capital construction projects have been given the seal of approval by these organizations, they are not to be included in the planning. The banks are not to make funds available to them and those in administrative leadership positions are not to grant them their approval.

5. State supervision. A system of accounting, auditing and statistics must first be established. On that foundation, use should be made of the supervisory powers of the tax system and the construction banks to examine and analyze the work of the enterprises and departments and the state should use its purse strings to compel the enterprises and departments to operate in line with the national plan and in accordance with the law for the good of all.<sup>7</sup>

Obviously, Xu Yi was not interested in merely establishing a temporary ratio in the readjustment of the economic structure or in using the reform of the

system according to a plan and the system of control to ensure the steady progress in part or in whole of the national economy. There is a great difference between this reform program and that favored by the reformists. The main difference is that Xu Yi strictly insists that the operations of the enterprises must not be divorced from the plan. By enterprises, he meant the head companies of the enterprises which are equivalent to businesses or bureaus and not the production units which the reformists have in mind. The reform which Xu Yi favors, while granting very limited autonomous powers to the enterprises, does not permit them to set their own wages or to establish their own system for giving rewards. He believes that if the enterprises were to be granted such powers, the state enterprises would be turned into an ownership system of the enterprises. He also disapproved of the profit-retention measures on the ground that the amount of profit does not accurately reflect the operational standard of the enterprises. He is of the opinion that the cost-index, rather than the amount of profit, should be used to evaluate the overall standard of the enterprises, that greater control should be exercised over the planning of the enterprises so that they, instead of being exclusively concerned with the making of profits, may establish in a practical manner a relationship between the quality of their products and variety of their products and the standards and effectiveness of their operations and that they may further develop their productive potential and improve their production technique and the administration of their operations. By cost-index, he meant not only the cost of production, but also the cost of the entire operational and productive process of the enterprises.

The views held by Xu Yi, on the one hand, and the reformists, on the other, are similar to the two main trends in the economic reforms in eastern Europe since the 1960's. One is the market adjustment pattern set by Yugoslavia and Hungary which grant the enterprises autonomous powers and free competition (individual production units) in the areas of operations and production and freedom of action in the system of sales, material supplies, prices, distribution of profits, labor, employment and foreign trade. The other is that set by East Germany and the Soviet Union which, while adhering strictly to the principle of planned adjustment, permit a limited degree of flexibility in market operations. The main feature of the latter pattern is the establishment of an organized economy and companies of various types along the lines of the enterprises in order to draw a line between administrative and economic control so that production and operations may be conducted more in line with economic laws and free from an excess of administrative intervention.

The economic reformists in China represent more or less the Yugoslav and the Hungarian school, while Xu Yi and his supporters represent the school typified by East Germany and the Soviet Union. As a matter of fact, Xu Yi has always been critical of the reform system favored by Yugoslavia and Hungary which, in his view, has more disadvantages than advantages, while the experience of Yugoslavia and Hungary is used by the reformists to bolster their own stand.

#### Another Counteroffensive by the Reformists?

Early this year, the economic policy of China took a sudden turn when the reformist view appeared once again to have gained the upper hand over the

readjustment view and economic reforms seemed to have become the central task in the economy. On the one hand, this may be due to the fact that the economy showed an upturn in 1982 and that those in leadership positions in the party Central Committee no longer had to worry about serious deficits. Recently, capital construction has once again been given the green light and those in leadership positions are once again talking about the large-scale importation of equipment and techniques from abroad. On the other, the industrial economic responsibility system (which in actual practice is close to the system of allowing people to work on separate plots of land) brought about by pressure from the basic levels and the adoption of the agricultural production responsibility system has made it necessary to bring about extensive reforms in the economic system to meet the needs of the situation.

However, the reforms proposed early in the year, whether relating to the industrial economic responsibility system or to the substitution of the payment of taxes for the payment of profits, have nothing to do with the widely supported proposal made some years ago to enlarge the autonomous powers of the enterprises. The proposal to substitute the payment of taxes for the payment of profits has long been made by Xu Yi and the economists in the Ministry of Finance to ensure that profits are paid directly to the state by the enterprises. As to the specific provisions of the economic responsibility system, there is still a great deal of argument going on with no consensus in sight.

At present, proposals for reform are mostly confined to the discussion stage and a clear-cut decision has yet to be made as to whether precedence should be given to reforms or readjustments.

Written on 28 April 1983 in Tokyo

#### FOOTNOTES

1. Xu Yi, "Relationship Between the Structure and the System of Production," in STUDY OF FINANCIAL AND ECONOMIC PROBLEMS, No 1, 1981, p 1, reprinted in "Planning and Management of the National Economy" from REPRINTED MATERIALS OF THE PEOPLE'S UNIVERSITY, No 4, 1981, p 53.
2. Xu Yi, Wang Zhuo [3769 3820] and Huang Lanbo [7806 5695 3134], "The Law of Socialist Reproduction and the Movement of Circulating Funds," Shanghai People's Publishing House, 1981, p 5.
3. "China's Financial Problems," Tianjin People's Publishing House, 1981, p 28.
4. Xu Yi, Wang Zhuo and Huang Lanbo, "The Law of Socialist Reproduction and the Movement of Circulating Funds," Shanghai People's Publishing House, 1981, p 8.
5. "China's Financial Problems," Tianjin People's Publishing House, 1981, pp 28, 31-32.

6. Xu Yi, "The Financial and Economic Problems That Exist at the Present Time and Our Way To Deal With Them," in [The Present Financial Problems], pp 13-34.
7. "China's Financial Problems," pp 389-396.

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## HONG KONG MEDIA ON CHINA

### ROLE OF FLOATING PRICES IN PRICE REFORM DISCUSSED

Hong Kong WEN WEI PO in Chinese 21, 28 May, 2 Jun 83

[Article by Li Kehua [2621 0344 5478]: "The Role of Floating Prices in China's Price Reform"]

[21 May 83 p 7]

[Text] China has experimented with the use of floating prices in its price reform since August 1979. What is the substance of this form of pricing? What role does it play in the national economy? What will be the future tendency and prospects in adopting this form of pricing? Based on the realities of the reform in recent years, the author will supply the answers, one by one, to the readers.

#### The Meaning of Floating Price

The full name of floating price now being tested in China is "floating planned price." It is based on the base price set in the state plan (at present, the unified planned price of the past is used as the base price, although in the future, a new base price may be set) to which is added (or subtracted) the market price (which is obtained by multiplying the base price with the floating margin within the range stipulated by the state's plan). This floating margin can be chosen by the production and marketing departments according to market supply and demand.). Some people have thought that floating price is simply the base price with the addition (or subtraction) of the floating margin. This is, in my opinion, incorrect. Now let me give an example: The base price of a commodity is 100 yuan, and the floating margin is set at 5 percent. According to this incorrect idea, floating price will mean the addition (in the case of an upward movement) of 5 percent to 100 yuan, or the subtraction (in the case of a downward movement) of 5 percent from 100 yuan. This is unscientific, and not the original idea behind floating price, which should embody both the characteristics of planning and flexibility, with particular stress on "floating."

Therefore, I feel that floating price is the base price plus (or minus) the result of multiplying the base price with the chosen margin of floating. The formula used is:

Floating price = base price x the chosen margin within the stipulated range.

In simplified form, it is:

Floating price = base price x ( $1 \pm$  chosen margin within planned range).

For example, the base price of a commodity is 100 yuan, the planned range is 5 percent, and the margin chosen by the enterprise is 3 percent. If the price floats upward, the floating price will be 103 yuan; if downward, 97 yuan.

There are now three different types of floating prices under experiment in our country:

1. Downward floating planned price (briefly called downward floating price), meaning that the state permits only a downward (but not upward) movement of price. The idea is that the base price is the ceiling price, and any change can only make it lower. The formula is:

Downward floating price = base price ( $1 -$  chosen planned margin within planned range).

At present, downward floating prices are being experimented with mainly for some mechanical and electrical appliances, electronic products, chemical industrial products and others which are in excessive supply (or products whose supply is excessive to their demand. In foreign countries, they are called seller's market products.). The purpose of using this form of price is to regulate or reduce the production of slow-selling goods through the lever of price.

2. Upward-downward floating planned price (or upward-downward floating price). This form of price is generally suitable for products with diverse varieties and flexible consumption demand, such as enamelwares, toilet soaps, thermos bottles with painted metal shells, and so forth, and is now in experiment. For these products, the base prices can move either upward or downward as chosen within the stipulated range. Since some daily consumer goods now tend to swing from the seller's to the buyer's market, the use of this form is likely to be fairly common.

3. Upward floating planned price (briefly called upward floating price). It means that the state permits the price to move upward (but not downward), so that after floating, the price will be higher than its base price. According to investigations, this form of price is being tried out mainly on some machinery, agricultural products and other products in short supply (that is, products whose supply is inadequate for the demand). The use of upward floating price as a lever can encourage and develop production to meet the social demand for goods in short supply.

#### Reasons for Experiment With Floating Price

The experiment with floating price is a reform of the forms of prices. The main reasons are as follows:

First, in order that the prices of commodities be consistent with their value, we have to start with experiments in changing their forms of prices. The interpretation of value in our country is that apart from the embodiment of ordinary (abstract) human labor, or the consumption of physical and mental power in the commodity qualitatively, value also refers to the amount of socially necessary time (but not the labor time of individual plants) by which value is decided quantitatively. Price is the manifestation of value in monetary terms. Before the reform, there was only one form of price, namely, the unified planned price. Such a price, once set, would last many years. Since the rise in labor productivity would reduce the amount of socially necessary labor required for the production of certain commodities, a corresponding lowering of prices should be in order. But the problem was that these unified prices remained unchanged for a long time, and this led to the deviation of prices from value (although it is true that there should be exceptional cases in China now where luxury articles are priced above their actual value). Thus we should have an alternate way of reform. Learning from the experiences of the Soviet Union and the eastern European countries, we feel that the "floating price regulated by official price" in Hungary is not bad at all, and that we should adopt it selectively in light of our national conditions. It is the opinion of price experts that under planned guidance, the three different forms of floating price already mentioned will enable the prices of the commodities under experiment to continue their approach to value through a series of upward and downward movements. This will help solve the long-standing problem of irrational distribution of benefits among different enterprises.

Second, China is a socialist country where planned economy plays the leading role. Thus in national economic development, we should uphold the principle of the leading role of the planned economy and the supplementary role of market regulation. This is precisely the opportune moment for the appearance of floating prices. The base price of floating price is now the unified planned price, and even though it will be revised later on, this is still a matter of state planning as shown by the stipulated range of floating. It is only the price margin chosen by the enterprise itself within the set range that embodies the requirement of the market's regulative role. This shows that as a form of price, floating price plays a "dual role": In addition to the embodiment of planning in the leading role, it also reflects the freedom of choice which plays the supplementary role. This is a combination of the leading role of the planned economy and the supplementary role of market regulation in the order of their importance, and the experimentation of floating price should be a natural outcome.

Third, it is also natural that different forms of prices, including floating price, should be adopted to correspond with the multilevel productive forces, the different systems of ownership and the different channels of commodity circulation. As pointed out in the "Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China" by the party Central Committee, "There is no rigid pattern for the development of the socialist relations of production." At every stage, our task is to create these specific forms of the relations of production that correspond to the needs of the growing productive forces and facilitate their continued advance. At the present stage, China's level of productive forces is best shown by the

tools of labor which symbolize the coexistence of mechanized and automatic machinery, semimechanized and semiautomatic machinery, and backward hand tools. In correspondence with this coexistence, there should be the state sector and the collective sector of the national economy as China's basic economic forms with the laborers' individual economy within certain limits as a necessary supplement to the system of public ownership. Different channels, namely, state-run, collective and individual channels, also exist in the sphere of circulation. If unified planned price still enjoys its "monopoly" in the system of prices, it would be impossible to bring about an all-round revitalization of the economy.

Fourth, as a result of restructuring, the enterprises have acquired certain decisionmaking power of their own. It is also necessary to adopt some flexible forms of price before the enterprises can set their own prices independently. Needless to say, these flexible forms include negotiated price and floating price. It would be particularly appropriate to use floating price in coordination with guiding plans in planned management, since it will help the enterprises carry out competition in prices and thus enliven the socialist economy.

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#### [Text] Characteristics of Floating Price

1. Floating price belongs to the category of planned prices, but is not, strictly speaking, a planned price. In China, there are two types of planned price. One of them is called unified planned price, or fixed planned price, and is suitable for products with a bearing on the national economy and the people's livelihood. Once set, these prices cannot undergo any significant change. (Such has been our experience at least up to now.) The production and marketing enterprises should unconditionally adhere to them and have no right to make any change. The other type is called floating planned price, meaning the floating price recommended by the higher authorities. We call it planned price because its main components (namely, the base price and the range of floating variation) are set by the state and imply some sort of planned control. Yet we say it is not planned price in a strict sense because it contains an element of free prices in accordance with market supply and demand, even though this element does not occupy any leading position.

2. Floating price is different from negotiated price (that is, the negotiated buying and selling prices for agricultural products and the price agreed upon between industrial and commercial units). Floating price is in principle planned price, while negotiated price is free price. (Some people think that negotiated price is planned price, but, in my opinion, if any price is agreed upon as a result of free negotiation, there can be no other name except free price for it.) It is true that there is some flexibility in floating price; however, the degree of flexibility here cannot be comparable to that of negotiated price.

3. China's floating price is different from that of foreign countries. In foreign countries, floating price is actually free price. The difference [in

our country] between the two is that the former contains an element of planning, while the latter does not. Furthermore, the scope of commodities to which floating price applies is controlled by state planning. In the case of farm machines, for example, the price, under present conditions, of models Shanghai-50, Fengshou [Bumper Harvest] 35, Tieniu [Iron Ox] 56, Dongfanghong [East Is Red] 28, and Fengshou 27, can only be permitted to float upward with a margin of 15 percent; that of walking tractors, to float upward with a margin of 10 percent; that of 10 or less horsepower gasoline engine and 12 or less horsepower diesel engine, to float upward by 10 percent; and that of hand sprayers, to float upward by 30 percent in our country. There is no limit to the application of negotiated prices, which can even be used for labor as a commodity. Negotiated price can rise or fall freely in accordance with the requirements of supply and demand. Floating price is intended to satisfy people's needs, while the movement of negotiated prices is motivated by the quest for profits.

4. There is no contradiction between China's floating price and its relatively stable prices, mainly because the base price of floating price is unified planned price which is relatively stable, and the planned margin of floating is also predicated on stable price. Among the three kinds of floating price, the upward and the downward type can offset each other, so that the price level as a whole will remain stable. As for the third type, its upward and downward movements should tend to stabilize the price level, too.

#### Principles for Determining the Margin of Planned Floating

The state-determined margin of planned floating is generally based on the following principles:

1. Depending on the extent of deviation of price from value. There is still some difficulty in counting the magnitude of value in terms of socially necessary labor. In studying value (approximately), we should direct our main attention to the profit rate on cost. If this profit rate is high, the price can be lowered by a wider margin; if it is low, then the price can be appropriately raised. Determination of this margin will enable the price to come closer to the value. In the case of electrical products, according to investigations carried out in Shanghai, the average profit rate on cost in the past 2 years was 50-60 percent, and that of other areas is lower. Therefore, the state stipulated that the prices of 16 types of mechanical and electrical products--namely, machine tools, air compressors, high- and medium-pressure valves, measuring and cutting tools, grinders, hydraulic tools, pneumatic tools, jacks, motor-driven airlocks, instruments, meters and elements, automobile parts, electric welding machines, insulation materials, low-voltage electrical elements, electrical appliances for machine tools, and silicon elements--which yield high profits should be lowered 20 percent, while the prices of two types of centrifugal water pumps, which were selling almost at a loss, had to be raised 25 percent.

2. Depending on supply and demand. Generally, the price will be lowered when supply is excessive to demand and the planned margin can be larger. Conversely, when supply is inadequate for the demand, the price may move upward

or remain at the base price, while the planned margin can be large, small or zero. Several years ago, electric meters, for example, enjoyed brisk sales because of the shortage of supply and the price did not move downward. (Now it has moved down slightly.) Again, the profit rate for steel-cored aluminum cable is not high at all, but its price has generally been lowered. This shows the effects of supply and demand on floating prices and the margin of floating.

3. Depending on the importance of products to people's living conditions. For example, electronic products are required in every trade, everywhere and in every family. For this reason, their price level generally tends to move downward. That is why since August 1980, the prices of silicon semiconductor devices and capacitor-resistor units have been lowered 30 percent; those of integrated circuits, lowered 50 percent; and their export prices changed according to international market conditions, as ruled by the state.

4. Consideration of various comprehensive factors, such as whether it will be helpful to the state in the development of production and exploitation of natural resources, whether it will be helpful to the enterprises in lowering their production costs and tapping their potential, and whether it will be helpful to the people in meeting the needs of their material and cultural lives and in raising their living standards. A realistic planned floating margin can be determined through an overall consideration, comparison and analysis of these factors.

#### The Role of Floating Price

First, floating price plays a certain regulatory role on production among enterprises. This refers to that "silent command" in the form of floating price, apart from the state's mandatory plans, for regulating the orientation of production and the use of labor and the means of production in a rational way among the enterprises. It is generally believed that the lowering of prices would reduce production, but actually it is not so. As long as the prices are lowered rationally, the increased volume of sales even at small profits can still be an incentive to production. In the case of Tianjin No 9 Electronic Elements, for example, the production cost of resistance units has been the best in the country. However, since the unified planned price was set too high, the products could not be easily sold and the plant had to operate under capacity. After a 50-percent price reduction, the sales at home and abroad were sharply increased, and the output last year trebled that of the previous year. This shows that as long as the floating is rational, it will stimulate consumption and open new prospects of production.

Second, in the sphere of distribution, floating price plays the role of regulating the distribution and redistribution of the national income and helps in the appropriate handling of the relations of economic benefits among the state, the collective and the individuals. Whether or not the base price and the planned floating margin are suitable for the national economic development will have certain effects on the national income; but the floating of prices themselves, either upward or downward, cannot increase the national income. It can only help redistribute the national income among different units and

the people or make some change in the units realizing the value of surplus products. For example, Enterprise A may incur some loss as a result of the lowering of products which are primary products including raw and semifinished materials. However, Enterprise B can gain some benefits out of the purchase of raw materials from A by reducing its production costs and thus increasing its profits. Yet, from the entire national standpoint, the total volume of profit can neither be increased nor decreased.

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[Text] Third, in the sphere of exchange, floating price serves as a barometer in exchange at equal values and can play a positive role in giving play to the enterprises' initiative, strengthening their cost accounting, improving their economic management and lowering the social value of commodities. The reason is quite simple, because only through the improvement of economic management, the acceleration of funds turnover and the reduction of production costs can an enterprise remain invincible in the competition of floating prices. It is only through competition, in which each enterprise must produce more and better goods at lower production costs and sell them at lower than the present market prices, that an enterprise can maintain a stronger foothold on the market. This will gradually compel other enterprises to adopt more economic methods of production and to reduce the amount of socially necessary labor (or social value) to a minimum. In short, competition will help lower prices.

#### Forced Price Reduction for High-Price Goods

A Shanghai plant reduced the price of his potential device for TV sets from 1.20 to 0.80 yuan, while the price of the same product in Beijing has never been changed. As a result, many orders, originally intended for Beijing, went to Shanghai. Thus the Beijing plant lost a lot of business and its production declined. Later, Beijing lowered its price to Shanghai's level and recovered some of the orders. Again, the production costs of the Xiaogan Power Machinery Plant in Hubei was high, and the production of seven types of machine tools had to be maintained by temporary local protection. The state-set price of the Model C6163 lathe was 12,000 yuan each, but the plant sold it at a higher price of 15,000 yuan under local protection for a long time. After the experiments in floating price, temporary local prices could no longer afford any protection. The plant was thus forced to lower production cost by raising labor productivity and finally lower the price to 11,000 yuan per unit.

#### Supply and Demand Balanced Through the Market's Regulative Role

Fourth, in the sphere of consumption, floating price can play the role of guiding consumption to keep supply and demand balanced. The Chengdu Cutting Tool Plant in Sichuan has been well known for producing drills and clock gauges which have won gold and silver medals. Following the expansion of decisionmaking power for the enterprises in 1979, its production was increased by 20 percent, and for three quarters of the year, its products were overstocked. What should it do? At a meeting for the placement of orders held in Wenzhou, this plant followed the principle of inverted proportion of prices to demand and boldly reduced the price 20 percent. As a result 740,000 pieces of

goods in stock was sold right on the spot, and the invested funds returned just in time. In 1980, this plant again used the unified planned prices, and the products still sold well because of their fine quality. In addition to balancing supply and demand, floating price can also indicate the future trend of consumption. From floating prices, enterprises can find out what is needed on the market and accordingly produce to meet the needs. For example, the Chongqing Machine Tool Plant produced mostly old products in the past. Although the state instructed it to produce new products and appropriated funds for its trial production expenses, such instructions were not satisfactorily carried out. After the introduction of market regulation, this enterprise became more aware of the market needs through competition and the floating of prices, and soon trial-produced 13 varieties of fast-selling new products to meet social needs.

Fifth, floating price, if used, can promptly provide market information, truthfully reflect the deviation of the unified planned price from the value, and bring about a rational readjustment of unified planned prices, thus helping promote scientific management among the price departments. In the first half of 1982, Shanghai Municipality took the initiative of readjusting the unified planned prices of some products after studying the market information provided by floating prices of mechanical and electrical products. The prices gradually became consistent with value, and its action was warmly praised and supported by both the consumers and the production units. This price readjustment also enabled the price departments of other provinces and municipalities to be acquainted with the current market situation and to take suitable measures to promote the scientific management of prices.

#### Production Arrangements Gradually Becoming Rational

Sixth, experiment in the floating price system has made it possible for production arrangements to become rational gradually. It also helps promote economic readjustment and restructuring. In the past, the situation of duplication in production because of the arrangements was serious, and the purely administrative orders to "close, suspend, merge and retool for other lines of production" met with resistance. After the introduction of floating price in the reform, some enterprises producing goods in excessive supply had problems with overstocking, since nobody wanted to buy their products of high prices and inferior quality. It was thus difficult for these enterprises to survive in the competition. A combination of floating price and administrative means was able to overcome such resistance. The price of air compressors, for example, was very high in the past. Many localities vied with one another in developing their production blindly and none of them was willing to halt the competition. After the introduction of the floating price system, some well-managed specialized plants reduced their prices by 20 percent. Their action compelled some others to switch over to other lines of production. According to some people's investigation, the closing, suspending, merging and retooling of some small and medium enterprises in Shanghai and Shandong 2 years ago were mostly attributed to the adoption of floating prices. This shows that floating of prices, coupled with administrative means, are of great advantage to China's economic readjustment and restructuring.

## The Study of Benefits and Defects by Price Departments

Floating price has been tried out in China for more than 3 years. According to the result of the trial, some localities are not doing very well. For example, some people think that the floating price experiment is only a temporary expedient; the policies worked out for floating prices by the price departments are not quite reasonable; some enterprises have exceeded the limits of floating price in scope and margin; some marketing departments have made unreasonable demands on the enterprises when floating prices are used for some mechanical and electrical products whose supply is excessive to demand; and so forth. Of course, innovations are always subject to criticism; but this is only a side issue rather than the main current, and the departments concerned are now carefully studying these problems. Some of them have already been solved, and others are in the process of solution. It is true that an all-round adoption of floating prices for a wide range of commodities requires the following conditions:

First, there must be an overall balance in planning, especially the basic proportionate harmony among different sectors of the national economy, the basic proportionate balance between the input of money and the output of commodities and the basic balance between financial receipts and payments. These conditions can only be obtained gradually through restructuring.

Second, the all-round adoption of floating prices, a fairly stable price level throughout the country, and fairly rational based prices and margins of floating. This condition is particularly necessary for the upward-downward floating price.

Third, it is also necessary to conduct scientific study and analysis of the chain reactions to the changes in commodity prices so that there can be a reliable basis for making forecasts.

## Products From Natural Resources Unsuitable for Floating Price

Fourth, for the time being, there are some exceptions to the rule of all-round adoption of floating prices. This is particularly true of those commodities which are not yet ready for the change from the seller's to the buyer's market. Examples of these commodities are the means of production and the means of subsistence which have a bearing on the national economy and the people's livelihood; those articles which are of many different varieties and produced in small lots by one or more plants (such as some heavy or large equipment serving only a single purpose); metal ores, petroleum and its principal by-products, timber and certain raw materials from agricultural products; the natural resources which the state has to protect in order to preserve the ecological balance; and so forth. They are unsuitable for floating prices and their production should be largely guided and regulated by plans.

After all, the author thinks that there is a promising future for floating price because of the nature of planning supplemented by freedom as its special characteristic. As long as we uphold the principle of the leading position of planned economy and the subsidiary role of market regulation, make efforts to solve the existing problems, actively create favorable conditions and strengthen management, floating prices can certainly be used for more commodities and enter a new phase of application.

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